India

Real Estate

CENTRUM

Bangalore real estate sector

Initiation — **30 January 2009**

IT slowdown casts a shadow

- **Bangalore property market to see recovery only in FY11E:** We are bearish on the Bangalore property market and initiate coverage on Sobha Developers (Sell), Puravankara Projects (Reduce) and Brigade Enterprises (Buy). Our positive views reflect the companies' healthier D/E ratios, higher pre-sales and low outstanding land payments.

- **Excess supply to intensify price correction:** Compared to Mumbai, Bangalore will likely face an acute oversupply of residential and commercial space over CY08-10E. This will likely accentuate the price correction, with residential prices in Bangalore expected to correct 30-40% by June 2009.

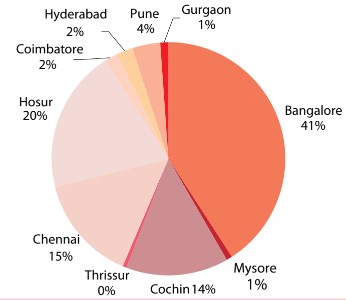
- **Occupancy levels to dip:** Occupancy levels in existing office and retail properties are likely dip to 80% by FY09E and 40-50% in new projects by FY10E.

- **Affordability to restore post expected price fall:** Affordability is once again expected to touch CY05 levels of 49% post price correction. Subsequently, we expect a mild recovery in this market. Commercial rentals should see 30-35% decline.

- **Affordable housing need of the hour:** Existing residential stock in Bangalore is skewed more towards premium housing and there is demand for affordable homes from end-users. Housing projects in the sub-Rs3mn bracket is gathering momentum with developers announcing affordable housing projects.

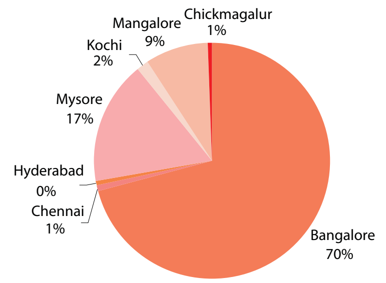
- **Valuation is based on ongoing projects:** To reflect the current market scenario, we have considered NAV of ongoing projects and valued the remaining land at book value to arrive at our target price.

Sobha: Land bank



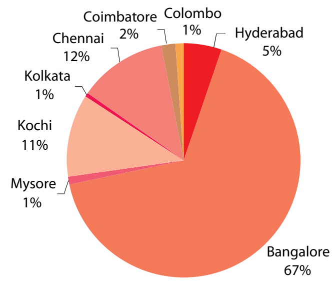
Source: Company, Centrum Research

Brigade: Land bank



Source: Company, Centrum Research

Puravankara: Land bank



Source: Company, Centrum Research

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Valuations of Bangalore based companies

Company	Rating	Market Cap (Rs mn)	CMP (Rs)*	NAV (Rs)*	% Discount to NAV	Target Price (Rs)	% Up/Downside from CMP	P/E (x) FY09E	P/E (x) FY10E
Sobha Developers	Sell	6,335	87	140	60	56	(36)	4.6	3.9
Puravankara Projects	Reduce	8,409	39	58	40	35	(11)	4.1	3.6
Brigade Enterprises	Buy	4,092	37	96	50	48	30	4.1	3.6

*As on 29 Jan 2009
Source: Centrum Research

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Executive Summary

Our foremost report on Mumbai's real estate market, *'Banking on Mumbai' dated 29 September 2008*, highlighted our expectation of 30-35% fall in India's residential prices from their peak levels. We have gone a step forward and included the IT hub of Bangalore into our real estate sector analysis, which we believe is set to witness an accelerated 30-40% fall in property prices until June 2009. By the time this report came into print, we gather the city had already witnessed a 10-15% slump in property prices over last six months, both in the primary and secondary markets. A further 20-25% price fall across micro-markets in the city should resurface affordability and enhance transaction volumes from Sept 2009 onwards, amidst a mild recovery in the IT/ITES sector, in our view. However, demand for commercial and retail space will continue to remain subdued in 2009 with recovery in occupancy levels and lease rentals expected only in 2010. We have a bearish view on the overall Bangalore property market and initiate coverage on Sobha Developers with a Sell rating, Reduce on Puravankara Projects and Buy on Brigade Enterprises. Most of Puravankara's and Sobha's projects are in the residential segment, while Brigade has a more diversified presence across residential, office and retail projects. Successful completion of existing projects under the prevailing tight liquidity conditions is a huge concern. While Puravankara and Brigade are better placed on this score owing to their low gearing and high pre-sales in ongoing projects, Sobha will likely bear the brunt due to its high gearing and huge stock of unsold properties in the luxury and super luxury residential segments.

Bearish outlook for Bangalore based players; recovery in FY11E

Continued slump in property prices owing to oversupply and unaffordability make us bearish on Bangalore's property market. By FY11E, sentiment should improve with further fall interest rates and 30-40% price correction. Sobha Developers is a Sell, given its high gearing of 1.9x, high exposure to Rs6mn plus apartments and high outstanding land bank payments of Rs5.3bn. However, we are comparatively positive on the long-term prospects of Brigade and Puravankara, owing to their low debt-equity ratios, high pre-sales and a relatively lower land bank size. To arrive at our NAV, we have valued the companies on GAV from ongoing projects, have taken the book value of the remaining land bank and adjusted for net debt and outstanding land payments. Our target price for individual companies is based on 40-60% discount to NAV, which reflects cyclical slowdown risk, execution delays and funding concerns.

Exhibit 1: Valuations of Bangalore based companies

Company	Rating	Market Cap (Rs mn)	CMP (Rs)*	NAV (Rs)*	% Discount to NAV	Target Price (Rs)	% Up/Downside from CMP	P/E (x) FY09E	P/E (x) FY10E
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*As on 29 Jan 2009
Source: Centrum Research

Excess supply to result in sharper price correction

The Bangalore market will continue to suffer from an oversupply situation in the residential and commercial space, hampering property prices there. This is in contrast to the Mumbai market, where a steep correction seems unlikely owing to favourable demand-supply dynamics. Our analysis reveals that around 75mn sq ft of additional residential supply is expected to emerge over CY08-10 in Bangalore against an estimated demand of 51mn sq ft. Moreover, supply from ongoing commercial projects would add 20mn sq ft over CY08-10, while we estimate a demand of only 10mn sq ft. This makes us believe that price correction in both residential and commercial space is inevitable by June 2009. In fact, commercial space will be further hit on occupancy levels.

Affordability to restore post expected price fall

We believe a 30-40% fall in prices of real estate assets in Bangalore from the peak would bring back affordability and boost demand in a sliding interest rate environment. The demand would come from end-users, especially in the IT/ITES segment, as speculators have been ousted in the current downturn. The steep rise in property prices since 2004 had impacted affordability levels, which rose to 86% in CY07 from 49% in CY05. We expect a similar 30-35% decline in commercial rentals on expected slackening demand from users, primarily from the IT/ITES sector in FY09-10, owing to slowdown in the sector.

Affordable housing is the need of the hour

The availability of easy loans over CY05-07 resulted in many speculators entering the Bangalore property market. This coupled with the increasing influx of highly-paid IT/ITES professionals, fuelled demand for premium properties. However, with investors and speculators exiting the market and IT/ITES sector facing a slowdown, demand for premium housing waned and transaction volumes are down 40-60% across micro-markets over CY07 levels. In such a scenario, affordable housing has become a focus area for developers such as Puravankara Projects (Reduce rating) and unlisted players such as Mantri Developers, Ozone Group and Golden Gate Properties, who have announced plans to launch affordable housing projects in the sub Rs3mn bracket.

Investment Argument

Excess supply to result in sharper price correction

The demand-supply dynamics in Bangalore is skewed where there is an oversupply of both residential and commercial properties. This, we believe would result in a steep 30-40% correction during CY08-09. Further, over CY08-10, the city is likely to see additional supply of around 75mn sq ft of residential space and 20mn sq ft of office space, which exceeds the underlying demand in the city.

Residential supply overshoots demand

Our estimated demand of around 51mn sq ft for residential space over CY08-10 takes into account that the IT industry, the primary demand driver for real estate in the city, is currently witnessing lukewarm salary hikes and fear of job cuts amidst a global economic slowdown. Also, there is a visible slowdown in hiring by most IT companies. However, we view IT/ITES employee recruitment at 7.5% CAGR (Nasscom estimates the same at about 10%-15%; however, we have been conservative) in Bangalore over CY08-10 as a likely scenario and expect IT professionals to increase by approximately 103,000, which would translate into incremental demand for 51mn sq ft of residential space and 10mn sq ft of office space (assuming a requirement of 100 sq ft per employee). On the supply side, there are currently about 150,000 units (averaging 500 sq ft per unit) scheduled for completion over CY08-10, which translates into upcoming supply of 75mn sq ft. Thus, there is a clear oversupply in the market when we compare expected incremental demand with incremental residential supply over CY08-10E. Lower than the moderate 7.5% Employee CAGR assumed for the IT industry would only skew the demand-supply equation further, in our view.

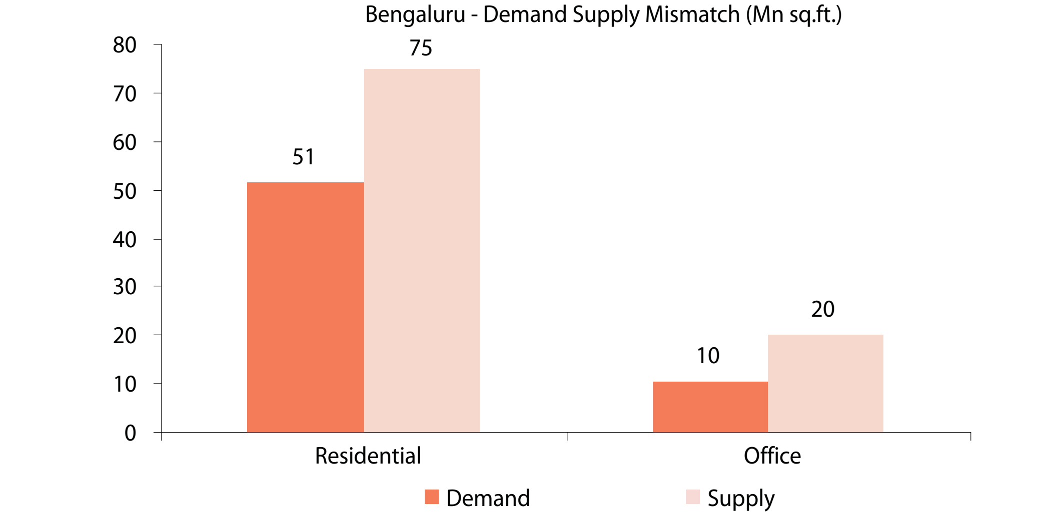
We have estimated the incremental demand over CY08-10 on the basis of incremental growth of IT professionals (including financial services) with a two-member household residing in an apartment having an average built-up area (BUA) of 1,000 sq ft. As of CY07, Bangalore's population stood at 6.6mn, of which IT professionals comprise 6%. During the boom phase in CY07, 27,000 units were sold of which 50% was investor driven demand, which translates into an end-user demand of 16mn sq ft annually (average ticket size of 1,200 sq ft). Assuming a similar run-rate over CY08-10E, with no fall in transaction volumes, the demand still works out to ~50mn sq ft, which again falls far short of the upcoming supply of 75mn sq ft.

Exhibit 2: Bangalore – demand estimates for residential and office space

	CY2001	CY2007E	CY2010E
Bangalore Population	5,686,000	6,594,017	7,101,035
Incremental Growth			507,018
IT Population as % of Total	4	6	7
IT Population	227,440	395,641	498,394
CAGR Growth in IT Professionals (CY07-10E) (%)			8
Incremental IT Professionals			102,753
Average Family Size			2
No. of IT Households			51,376
Average Apartment Size (BUA) in sq.ft.			1,000
Incremental Home Space Req. (Mn sq.ft.)			51
Avg. Office Space per IT Employee			100
Incremental Office Space Req. (Mn sq.ft.)			10
Expected Suppy (CY08-10E):			
Residential (Mn sq.ft.)			75
Office (Mn sq.ft.)			20
Estimated Oversupply:			
Residential (Mn sq.ft.)			24
Office (Mn sq.ft.)			10

Source: Company, Centrum Research

Exhibit 3: Bangalore's demand-supply mismatch over CY08-10E (mn sq ft)



Source: Centrum Research Estimates, Knight Frank

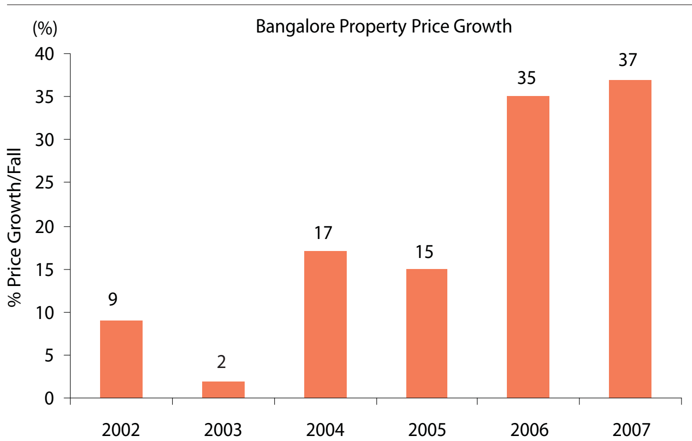
Office demand estimated at 10mn sq ft vs 20mn sq ft of supply

In the office segment, the situation is a cause for concern as incremental demand for office space is expected to be only 10mn sq ft against the expected 20mn sq ft of supply that would emerge over CY08-10E (we have assumed that projects announced for completion in CY10E may not materialize at all). With vacancy rates already touching about 9% (some areas like Whitefield are witnessing vacancy rates of 14-15%), developers shall either have to delay their construction plans or slash lease rentals by 30-35% from existing rates.

Affordability to restore post expected price fall

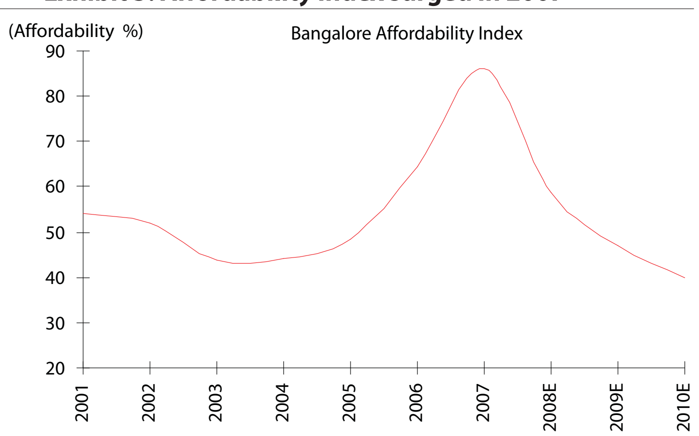
Property prices in the Bangalore market are expected to correct faster than in Mumbai owing to the favourable demand-supply dynamics in the latter market. We believe a 30-40% fall in residential prices in Bangalore from their peak prices would bring back affordability and boost demand in this market. End-users waiting for prices to fall, especially IT professionals who constitute the highest income bracket in the city would provide the necessary boost. In the office segment, we expect a 30-35% correction in lease rentals on the back of reduced corporate demand. The steep rise in property prices since 2005 had impacted affordability levels, which rose to 86% in CY07 from 49% in CY05 (affordability is defined as the monthly outgo for an equated monthly instalment or EMI as a percentage of monthly income).

Exhibit 4: Price growth in Bangalore's residential prices



Source: Centrum Research

Exhibit 5: Affordability index surged in 2007



Source: Census 2001, Centrum Research

Affordability index sensitivity

Residential property prices will likely fall 30-40% over CY08-10E from their peak levels, assuming inflationary pressures do not reduce significantly and there is a moderate 5% CAGR increase in salaries over CY07-10. This would help restore affordability levels by end CY09E to CY05 level of 49%. We have analysed the sensitivity of a fall in residential prices with a dip in home loan rates to provide a better picture of the steep fall that we are expecting.

Exhibit 6: Sensitivity analysis CY08E

Interest Rates (%)	2008	% Rise/(Fall) in Prices				
		-5%	-10%	-15%	-20%	-25%
	10%	65%	62%	58%	55%	51%
	11%	70%	66%	62%	59%	55%
	12%	74%	70%	66%	63%	**59%**
	13%	79%	75%	71%	67%	62%
	14%	84%	79%	75%	71%	66%
	15%	89%	84%	79%	75%	70%

Source: Centrum Research

Exhibit 7: Sensitivity analysis CY09E (Assuming 25% fall in CY08E)

Interest Rates (%)	2009	% Rise/(Fall) in Prices				
		-5%	-10%	-15%	-20%	-25%
	10%	46%	44%	42%	39%	37%
	11%	50%	**47%**	44%	42%	39%
	12%	53%	50%	47%	45%	42%
	13%	56%	53%	50%	48%	45%
	14%	60%	57%	54%	50%	47%
	15%	63%	60%	57%	53%	50%

Source: Centrum Research

Our sensitivity analysis reveals that a 25% price fall followed by a 10% fall in CY09 would make houses more affordable, following which buying should come back into the market.

Exhibit 8: Sensitivity analysis CY10E (Assuming 35% fall over CY08-10E)

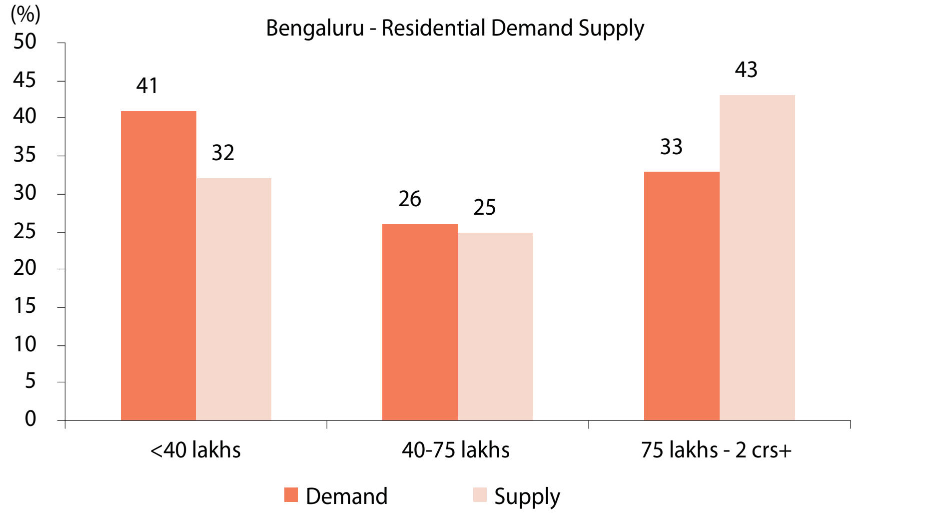
Interest Rates (%)	2010	% Rise/(Fall) in Prices				
		-5%	-10%	-15%	-20%	-25%
	10%	**40%**	38%	36%	34%	31%
	11%	43%	40%	38%	36%	34%
	12%	45%	43%	41%	38%	36%
	13%	48%	46%	43%	41%	38%
	14%	51%	49%	46%	43%	41%
	15%	54%	52%	49%	46%	43%

Source: Centrum Research

Affordable housing is the need of the hour

A recent three-month survey for Bangalore by real estate portal, *makaan.com* in Jun-Sep 2008 reveals that maximum demand for homes is in the sub-Rs4mn category (41% of potential home buyers), while demand for premium budget homes merely accounts for a third of the total demand. In comparison, the maximum supply is in the premium homes segment with ticket sizes of homes ranging from 1,500-2,500 sq ft and costing around Rs10mn. With slackening investor interest and speculators exiting the market, we expect existing stock to remain unsold with prices continuing to be unaffordable.

Exhibit 9: Bangalore residential demand-supply



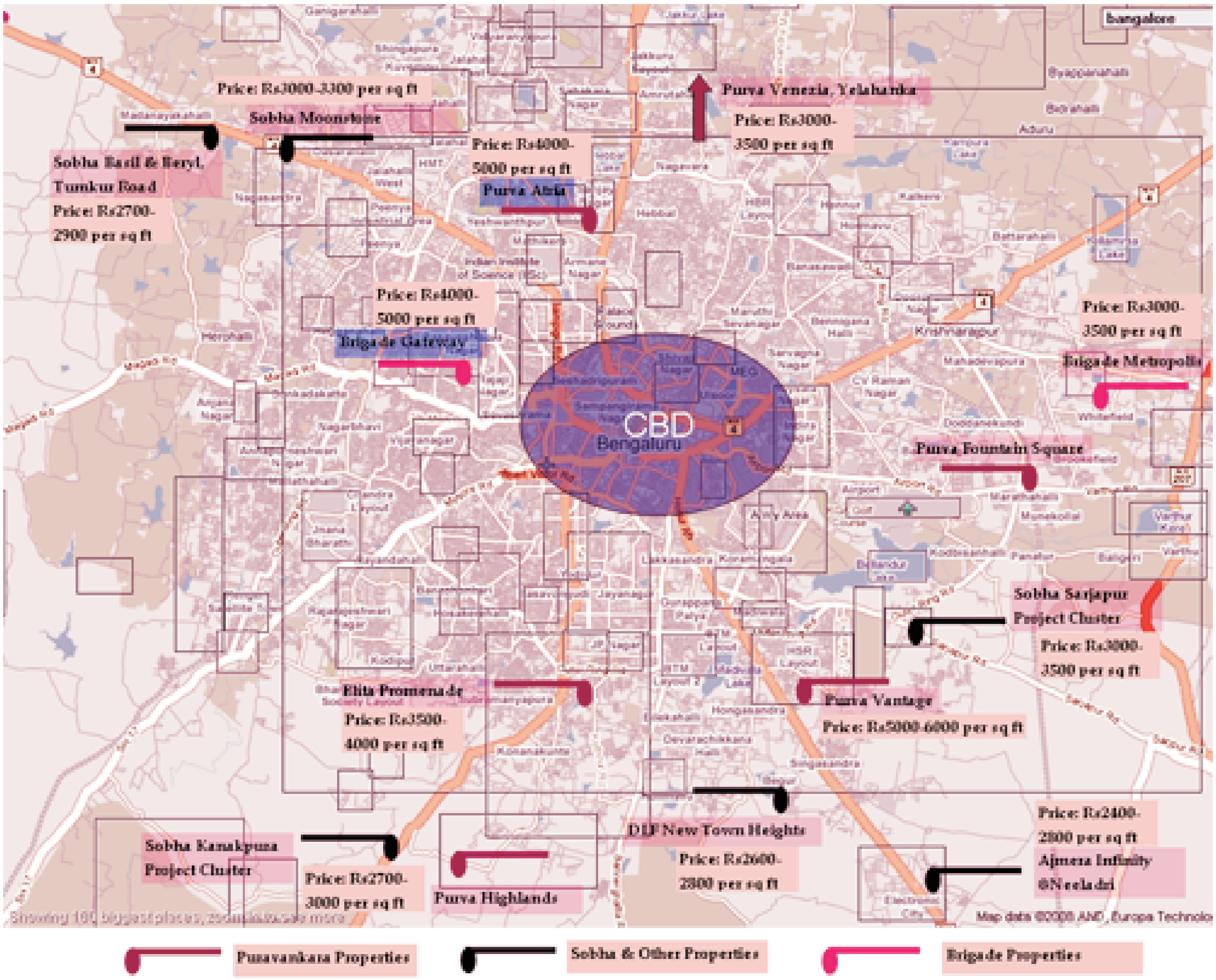
Source: Makaan.com, Centrum Research

Lack of budget homes has resulted in many developers getting into affordable housing to counter the demand-supply mismatch. Puravankara Projects has formed a subsidiary called Provident Housing & Infrastructure, **Ozonegroup and Vakil Housing** too have similar plans while **Mantri Developers** with its 'factory homes' foray and Golden Gate are the other prominent developers seeking to tap the affordable housing segment, which we believe is the right strategy in the current environment.

Slowdown reflected in transaction volumes; infrastructure woes persist

We undertook a three-day tour across all major locations in Bangalore, both existing and upcoming locations including areas near the new BIAL airport (Devanahalli, Tumkur Road and Yelahanka), the eastern parts of the city (Whitefield, Indira Nagar, Koramangala and Sarjapur Road), southern parts (Electronics City, JP Nagar, Jayanagar and Kanakpura) and the city centre including MG Road, Brigade Road and Residency Road).

Exhibit 10: Bangalore market overview -- Key property locations and prices



Source: Centrum Research

Key takeaways from the visit

1) **Residential sales hit:** Overall residential sales is down 30-40% in peripheral areas like Whitefield, Electronic City, Yelahanka, Tumkur Road and Kanakpura. Even though prices hover at Rs2,500-3,500 per sq ft, large ticket size of 2-3 BHK apartments (1,200 sq ft onwards) coupled with additional 10% stamp duty and registration charges have made buyers delay their purchase decisions. Rentals for 2 BHK apartments in emerging areas range from Rs8,000 per month (Yelahanka) to Rs15,000 per month (Whitefield), implying a yield of 3-4%.

2) **Supply concerns:** A majority of 3BHK flats priced at Rs6mn upwards have no buyers with investors unwilling to purchase flats and home buyers finding them unaffordable. Areas like Whitefield, Kanakpura, Electronic City and Sarjapur are seeing enormous supply at sites with little or no infrastructure (inaccessible roads, water supply, etc.). The northern parts near the BIAL airport at Devanahalli and Yelahanka are the new hotspots with a number of developers having launched projects in 2007.

3) **Infrastructure woes persist:** Although work has commenced on the Bangalore Metro project, the project is expected to be completed only by 2011-12. Also, the overall condition of roads in the emerging areas continues to be a matter of concern with frequent water logging during rains.

4) **Developers holding on to prices:** Most of the major developers like Sobha Developers, Puravankara, Prestige and Brigade are holding onto prices with few developers launching new phases of projects at 10-15% higher rates despite apartments in the previous phases remaining unsold. Construction activity has slowed down with lower pre-sales and absence of funding. Although Sobha has reduced prices by 8% across all its ongoing projects, the average price of apartments continues to be in the Rs6mn plus range, which continues to witness slackening demand.

Valuation

We have initiated coverage on Bangalore-centric companies having presence in South Indian property markets – Sobha Developers, Puravankara Projects and Brigade Enterprises and have studied factors such as project location and pricing, funding requirements and land bank to determine which company is better positioned to ride the current downturn in the real estate markets.

We have valued the NAV of the companies by only considering development of ongoing projects and have not included any fresh launches in FY09-11E. Further, we have valued the undeveloped land bank of the companies either at book value or at a discount to market rate and have adjusted for net debt and outstanding land payments. Further, in view of the current negative sentiment surrounding the real estate sector amidst fears of execution delays, failure to meet land bank payments and funding constraints, we have provided for a 40-60% discount to NAV to arrive at our target prices for the companies.

Sobha Developers – High gearing still a concern (CMP Rs87; Sell)

We initiate coverage with a Sell rating and a target price of Rs56 based on a SOTP valuation. We value the overall business at a NAV of Rs140, with real estate contributing Rs103 to the NAV and have valued the contracting and manufacturing business at 5x FY09 EBITDA multiples at Rs23 and Rs14, respectively. We provide a 60% discount to NAV to reflect execution risks, projects delays and funding constraints.

The company has a high proportion of ongoing projects concentrated in the Bangalore market in the super luxury residential segment which is currently facing a problem of oversupply and the company has invested heavily in acquiring large tracts of land in outskirts of city and runs the risk of defaulting on its debt obligations (D/E of 1.9x as of Q1FY09) and land bank payments of Rs5.3bn (as of Q2FY09). We expect the contracting and manufacturing business to experience slowdown as well but expect it to act as company's cash cow in FY09-11E.

Puravankara Projects–Quality play overshadowed by Bangalore (CMP Rs39; Reduce)

We have value Puravankara on a SOTP basis by using the sum of DCF based NAV for its ongoing projects and book value of its remaining land bank. The affordable housing project under PHIL and 5 ongoing commercial projects do not form a part of the ongoing projects GAV and have been included in the NAV on the basis of the land bank associated with these projects. After considering GAV of ongoing projects and valuing the remaining land bank at a book value of Rs124psf, we arrive at a total GAV of Rs24,597mn. Discounting the cash flows from ongoing projects at 17% and adjusting for net debt and outstanding land payments as of FY10E, we get a discounted NAV of Rs58 per share. We have valued Puravankara at a 40% discount to NAV to reflect execution delays and sector-specific liquidity concerns and arrived at a target price of Rs35 per share. We initiate coverage with a Reduce rating.

We expect Puravankara's low debt/equity ratio of 0.6x which is among the lowest among its peers and transparent disclosures to enable company to tide over near-term liquidity concerns. Its recent foray into affordable housing shall prove fruitful in the long term but the company's ongoing project concentration in Bangalore market in the luxury residential segment is a medium-term concern.

Brigade Enterprises – Well padded (CMP Rs37; Buy)

We initiate coverage with a Buy rating and a target price of Rs48 at a discount of 50% to FY10E NAV based on our SOTP valuation of ongoing projects and existing value of land bank after deducting outstanding land bank payments. We have provided the discount to account for weak consumer sentiment, sluggish commercial and retail lease market and execution delays.

Brigade's high pre-sales from its flagship Gateway & Metropolis projects which are over 50% complete provides cash flow visibility. And the relatively lower size of land bank and low debt/equity ratio of 0.3x should enable company to manage asset cycle risk. We view the unrealised value of quality commercial and retail constructions as long-term triggers for the stock.

Exhibit 11: Valuations of Bangalore based companies

Company	Rating	Market Cap (Rs mn)	CMP (Rs)*	NAV (Rs)*	% Discount to NAV	Target Price (Rs)	% Up/Downside from CMP	P/E (x) FY09E	P/E (x) FY10E
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*As on 29 Jan 2009
Source: Centrum Research

Key Assumptions

Exhibit 12: Assumptions for Bangalore FY09-11

Parameter	Details
Prices	Fall of 30-35% across micro-markets
Delays	Delays in Project Execution of 12-18 months
Costs	Construction costs to remain stable
Cap Rate	11-12%
Exclusions	SEZ Valuations, Ancillary businesses

Source: Centrum Research

Exhibit 13: Bangalore Residential Capital Values (Rs/sq ft)

	FY09E	FY09E Rise/ (Fall in Prices)	FY10E	FY10E Rise/ (Fall in Prices)	FY11E	FY11E Rise/ (Fall in Prices)
Whitefield	2,700	(20%)	2,430	(10%)	2,430	0%
Sarjapur-ORR	2,800		2,520		2,520	
Kanakpura	2,500		2,250		2,250	
Yelahanka	2,900		2,610		2,610	
Hosur Road	2,700		2,430		2,430	
Tumkur Road	2,300		2,070		2,070	

Source: Centrum Research

Exhibit 14: Other Cities Residential Capital Values (Rs/sq ft)

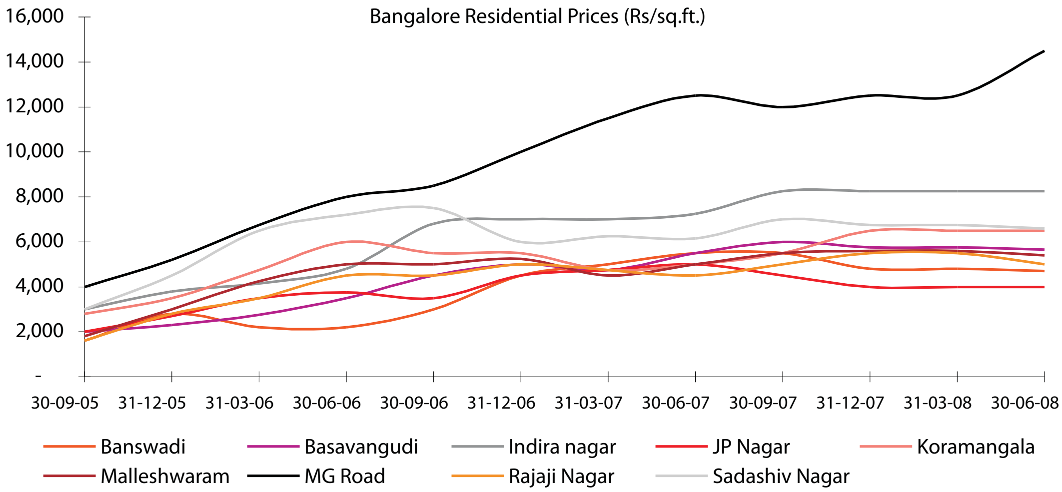
	FY09E	FY09E Rise/ (Fall in Prices)	FY10E	FY10E Rise/ (Fall in Prices)	FY11E	FY11E Rise/ (Fall in Prices)
Kakkanad,Kochi	2,000	(20%)	1,800	(10%)	1,800	0%
Rajarhat, Kolkata	2,400		2,160		2,160	
Vadapalani, Chennai	2,930		2,637		2,637	
Mysore	2,000		1,800		1,800	
Hyderabad	2,800		2,520		2,520	
Kondhwa,Pune	3,120		2,808		2,808	

Note: Prices are as per project locations of companies under coverage and are not strictly indicative of the prices prevailing across micro-markets in a particular city

Source: Centrum Research

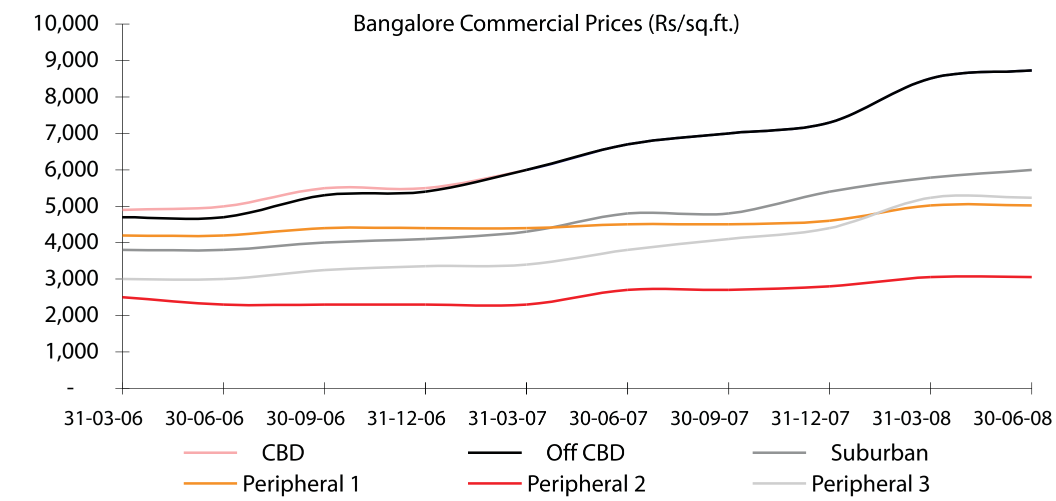
Annexure

Exhibit 15: Bangalore: Residential prices



Source: Knight Frank, Bloomberg, Centrum Research

Exhibit 16: Bangalore: Commercial prices



Source: Cushman Wakefield, Bloomberg, Centrum Research

India

Real Estate

Sobha Developers

Initiation

30 January 2009

Sell

Target Price: Rs56

CMP: Rs87*

Downside: 36%

*as on 29 January 2009

High gearing still a concern

- **Low visibility due to concentration in Bangalore, large unutilised land bank:** Of its 230mn sq ft landbank, 41% is in Bangalore 220mn sq ft is unutilized. This provides low visibility on its future execution plans resulting in a low front-ended NAV.

- **Unaffordable apartments:** Most of the company's ongoing projects consist of apartments with more than 1,500 sq ft saleable area, targeted at the premium segment. This would result in stagnant sales off take due to apartments being unaffordable.

- **High leverage, large unpaid land bank unviable in tight financial market:** Sobha's D/E of 1.9x and an outstanding payment of Rs5.3bn on its land bank are key concerns in a tight financial market. Further, its proposed rights issue of Rs3.5bn may not result in adequate fund inflow, as the stock price has taken a beating.

- **Slowdown in IT sector to impact contracting business:** Although Sobha's contracting and manufacturing businesses should cushion it against muted sales from the real estate division in the near-term, order book growth from these segments is slated to slow, as IT/ITES companies curtail their aggressive expansion plans.

- **Initiating coverage with Sell and target price of Rs56 based on SOTP valuation:** We value the overall business at Rs140, and provide a 60% discount to NAV to reflect execution risks, projects delays and funding constraints. The contracting and manufacturing businesses are valued at Rs23 and Rs14, respectively.

- **Key upside risk:** Sobha currently follows a conservative FSI assumption of 1.2x on its land bank compared with Puravankara's 3.1x. A change in its FSI assumption policy would increase its saleable

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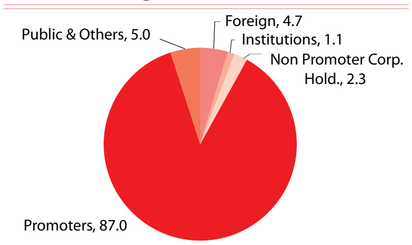
Key Data

Bloomberg Code	SOBHA IN
Reuters Code	SOBH.BO
O/S Shares (mn)	72.9
Diluted Shares (mn)	72.9
Market Cap (Rs bn/US$ bn)	6.3/129.2
52 Wk H / L (Rs)	900/61
Daily Vol. (3M NSE Avg.)	1,90,030
Face Value (Rs)	10
Free Float (%)	33.9

1 US$ = Rs49.0

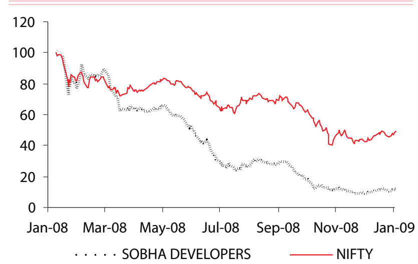
Source: Bloomberg

Shareholding Pattern



As on 31st December 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	1M	6 M	1 Yr
Sobha Developers	(15.2)	(64.4)	(88.5)
Nifty	(2.5)	(32.0)	(46.0)

Source: Bloomberg, Centrum Research

Key Financials (Rsmn)

Y/E Mar	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY %	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	11,865	89.8	2,567	21.6	1,615	82.5	24.3	19.8	15.0	3.6	9.3
FY08	14,291	20.5	3,603	25.2	2,283	41.3	31.3	23.1	10.5	2.8	6.6
FY09E	15,135	5.9	3,168	20.9	1,390	(39.1)	19.1	12.7	7.1	4.6	7.5
FY10E	15,711	3.8	3,784	24.1	1,632	17.4	22.4	13.4	7.3	3.9	6.3
FY11E	17,594	12.0	4,958	28.2	2,338	43.3	32.1	16.7	8.4	2.7	4.8

Source: Centrum Research

Shareholding Pattern (%)

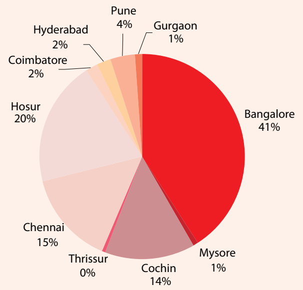
	Q408	Q109	Q209	Q309
Promoter	86.9	86.9	86.9	86.9
Foreign	8.1	6.0	4.9	0.0
Institutions	1.3	1.6	1.1	4.4
Public & others	3.7	5.5	7.1	8.7
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE

Company Background

Sobha Developers, a real estate developer in south India has executed about 26mn sq ft of real estate and contractual projects since 1997. The company entered the contracting business in 1999 with Infosys as its major client. Sobha also has a manufacturing division consisting of an interiors division, glazing and metal works, concrete product factories and a workforce training academy. The company has a land bank of 230mn sq ft mainly concentrated in South India, of which it has about 10mn sq ft are ongoing projects in the residential segment.

Sobha's land bank



Source: Company, Centrum Research

Sobha: Key events/timeline

1995	Incorporated in August 1995 as Sobha Developers Private Ltd
1997	First residential project launched in Bangalore
1999	Began first contractual project for Infosys
2006	Listed on BSE & NSE
Jun-08	Has completed 12.55mn sq ft of real estate & 13.26mn sq ft of contractual projects as of June 2008

Source: Company, Centrum Research

Key management personnel

Name	Position	Profile
Mr. P.N.C. Menon	Chairman	Mr. P.N.C. Menon has more than 35 years of experience in the real estate and construction industry. He began his career at the age of 24, by establishing an interior decoration firm in the Sultanate of Oman and has subsequently incorporated several companies in the Sultanate of Oman, UAE and Qatar, engaged in the construction & allied sectors. He is also the Chairman of these companies.
Mr. Ravi Menon	Vice Chairman	Mr. Ravi Menon joined Sobha in 2004 and is in charge of the quality and product delivery departments. He is a civil engineer from Purdue University, USA.
Mr. J.C. Sharma	Managing Director	Mr. J.C. Sharma is a qualified Chartered Accountant & Company Secretary and is responsible for the company's finance, land acquisition, legal approvals and material purchases. He has over 24 years of experience across diverse industries such as automobiles, textiles, steel and real estate.
Mrs. Sobha Menon	Non-Executive Director	Mrs. Sobha Menon, a businesswoman, has been partnering her husband, Mr. P.N.C Menon in his business enterprises in India. She has over 25 years of experience and is a director of the company since 1995.

Source: Company

Investment Rationale

- The company has a high proportion of ongoing projects concentrated in the Bangalore market in the super luxury residential segment, which is currently in oversupply.
- The company has invested heavily in acquiring large tracts of land on the outskirts of the city and runs the risk of defaulting on its debt obligations and land bank payments.
- Although contracting and manufacturing businesses may face slowdown, it would be cash cows for the business over FY10-11.

Debt repayment status (Q1FY09)

Closing bal. of debt as of 30 June 2008 (Rsbn)	19.5
Refinancing in next 12 months (Rsbn)	9.9
Outst. land bank payment as of 30 June 2008 (Rsbn)	5.6
Debt-eq ratio without outst. land bank payment(x)	1.9
Debt-eq ratio with land bank payment (x)	2.4

Source: Centrum Research

Summary Financials

Y/E March (Rsmn)	FY07	FY08	FY09E	FY10E	FY11E
Key Income Statement Data					
Revenue	11,865	14,291	15,135	15,711	17,594
YoY growth (%)	89.8	20.5	5.9	3.8	12.0
Operating profit	2,567	3,603	3,168	3,784	4,958
YoY growth (%)	85.7	40.3	(12.1)	19.5	31.0
Operating margin	21.6	25.2	20.9	24.1	28.2
Depreciation	244	350	454	480	538
Interest expenses	486	597	954	1,158	1,350
Other non operating income	29	53	22	30	48
PBT	1,866	2,709	1,782	2,176	3,117
Provision for tax	251	426	392	544	779
Minority interest	0	0	0	0	0
PAT (adjusted)	1,615	2,283	1,390	1,632	2,338
YoY growth (%)	82.5	41.3	(39.1)	17.4	43.3
PAT margin	13.6	15.9	9.2	10.4	13.3
Key Cash Flow Statement Data					
Cash generated from operations	(4,868)	(10,565)	(1,807)	(1,106)	(1,317)
Cash flow from investing activities	(1,623)	(190)	(1,036)	(984)	(920)
Cash flow from financing activities	6,725	10,197	3,220	2,460	2,102
Net cash increase/decrease	234	(558)	377	369	(135)
Key Balance Sheet Data					
Shareholders' fund	8,155	9,883	10,948	12,197	13,988
Debt	5,859	17,631	22,131	26,131	30,131
Minority Interest	0	0	0	0	0
Total Capital Employed	14,015	27,514	33,078	38,328	44,118
Fixed Assets	1,948	2,153	2,607	2,991	3,421
Investments	528	294	444	594	594
Net current assets	11,539	25,067	30,028	34,743	40,104
Total Assets	14,015	27,514	33,078	38,328	44,118
Key Ratio					
ROCE	15.0	10.5	7.1	7.3	8.4
ROIC	16.4	10.6	7.3	7.6	8.6
ROE	19.8	23.1	12.7	13.4	16.7
Per share Ratios (Rs)					
Fully diluted EPS	24.3	31.3	19.1	22.4	32.1
Book value	122.9	135.6	150.2	167.3	191.9
Solvency Ratio (x)					
Debt-equity	0.7	1.8	2.0	2.1	2.2
Interest coverage ratio	4.8	5.5	2.9	2.9	3.3
Valuation parameters(x)					
P/E (Fully Diluted)	3.6	2.8	4.6	3.9	2.7
P/BV	0.7	0.6	0.6	0.5	0.5
EV/EBITDA	9.3	6.6	7.5	6.3	4.8
EV/Sales	2.0	1.7	1.6	1.5	1.4

Source: Company, Centrum Research

Accelerated revenue recognition policy to arrest revenue de-growth

Business to remain operating cash flow negative over FY09-11E

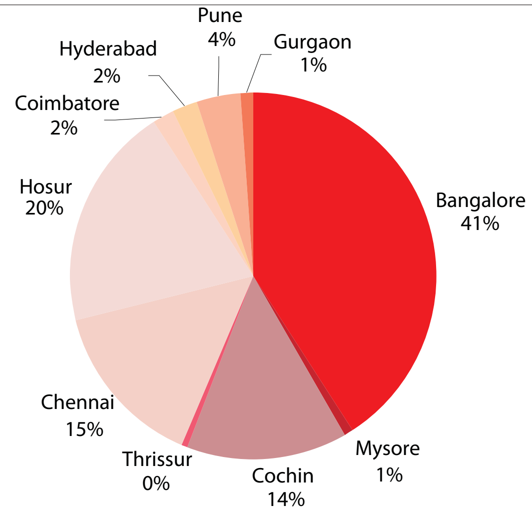
Debt/Equity ratio to worsen

Investment Argument

Concerns provide low visibility

The overwhelming concentration of Sobha's land bank in Bangalore (41% saleable area) and a large unutilised land bank of 220mn sq ft with only 10mn sq ft of ongoing projects provides very low visibility on its earnings post FY11. Although the company intends to launch an additional 10-12mn sq ft of new projects over the next 12 months in several cities like Bangalore, Pune, Mysore, Thrissur, Chennai and Gurgaon, the current slowdown in real estate markets which is expected to last for most of FY10 and Sobha's over-leveraged balance sheet makes us cautious in factoring in these planned projects in our valuations and hence we have valued these projects at book value of land. In the case of an earlier-than-expected revival in sentiment, we believe Sobha could benefit from its expertise gained in contracting business in other cities like NCR, Pune and Chennai.

Exhibit 1: Sobha's land bank is concentrated in Bangalore



Source: Company, Centrum Research

Few takers for premium apartments

Post its IPO, Sobha has been concentrating on building luxury and super-luxury apartments predominantly in and around Bangalore. These apartments are typically in the price range of Rs7-10mn having an average size of 1,500 sq ft plus which is well outside the realm of affordability of a genuine home buyer. During the property boom in 2007, about 50% of the sales volumes in Bangalore were driven by investors and speculators who have now vanished from the market. Additionally, as mentioned previously, demand for residential properties is highest in the Rs4-7mn bracket. Currently, Sobha offers only two projects, Sobha Basil and Sobha Beryl at Tumkur Road in western Bangalore, that come within this price range. Most of Sobha's offerings consist of 3-4BHK apartments and villas. It has little or no presence in the affordable housing segment.

We visited the sites of Sobha's ongoing projects at Tumkur Road, Yelahanka, Kanakpura and Sarjapur-ORR in Bangalore and found that many of the projects were behind by 6-8 months of their original execution date and at many project locations there was no proper approach road. Although properties in early stages of development may find takers in a boom phase, in a bear market home buyers prefer visibility in project progress and in such a scenario Sobha may find it difficult to sell off its existing properties. Even though Sobha has recently announced a price cut of up to 8% across all its ongoing projects, we believe that this may not be enough to stimulate demand.

Exhibit 2 : Sobha's ongoing project details

No.	Name of Project	Location	Land Area (Acres)	Dist. from MG Rd(km)	Type of Apts.	No. of Units	Description	Avg Apartment Size (Sq Ft)	Sale Rate (Rs/Sq Ft) as on 1 April 2008	Total Cost (Rs mn)	Tentative Completion Date
1	Sobha Carnation	Sarjapur - ORR	2.6	12	Luxury	216	3 BHK	1564-1726	3,505	7.4-8.0mn	August-08
2	Sobha Dahlia	Sarjapur - ORR	3.7	12	Super Luxury	236	3 BHK	1662-1784	3,750	8.1-8.7mn	Ready to Occupy
3	Sobha Daisy	Sarjapur - ORR	3.0	12	Luxury	183	3 BHK	1676-2327	3,505	7.7-10.4mn	Ready to Occupy
4	Sobha Lavender	Sarjapur - ORR	1.2	12	Super Luxury	38	2-3-4 BHK, Pent	2065, 2308-2573	4,250	2BHK - 11.2mn, 3 BHK - 13.5mn, 4BHK - 18.0mn, Penthouse - 22mn	September-09
5	Sobha Daffodil	HSR Layout	9.7	12	Luxury	432	3 BHK	1749-1805	3,505	8.0-8.2mn	June-09
6	Sobha Cinnamon	Off Hosur Road	4.5	14	Super Luxury	176	3-4 BHK	1925-2317, 2507-3137	3000-3500	3BHK - 7.8-10.5mn, 4BHK - 10-14mn	March-11
7	Sobha Celsia	Off Sarjapur Road	6.5	12	Super Luxury	226	3-4 BHK	2231-2470, 3070-3760	3750-4300	3BHK - 10.5-13mn, 4BHK - 15-20mn	March-11
8	Sobha Hillview Sunscape	Off Kanakpura Rd	9.0	19	Dream Series	362	2-3 BHK	1276-1318, 1375-1563	2725-2887	2BHK - 5.3-5.4mn, 3BHK - 5.4-6.3mn	June-09
9	Sobha Hillview Sunbeam - 1	Off Kanakpura Rd	9.0	19	Luxury	108	3 BHK	1640-1905	2,920	6.7-7.7mn	June-09
10	Sobha Hillview Sunbeam - 2	Off Kanakpura Rd	9.0	19	Luxury	106	3 BHK	1644-1910	2,920	6.7-7.7mn	June-09
11	Sobha Suncrest	Off Kanakpura Rd	1.5	19	Super Luxury	72	2-3-4 BHK	1535-1590, 1941-2225	3,325	2BHK - 7.2-7.4mn, 3BHK - 8.8-10mn, 4BHK - 11.7-12mn	December-08
12	Sobha Amethyst	Whitefield	9.0	24	Luxury	368	3 BHK	1653-1781	2,590	6.2-6.6mn	March-10
13	Sobha Beryl	Tumkur Road	9.0	21	Luxury	160	3 BHK	1659-1799	2,920	6.8-7.3mn	July-10
14	Sobha Basil	Tumkur Road	9.0	21	Dream Series	376	2-3 BHK	1204-1260, 1414-1470	2,725	2BHK - 4.9-5.1mn, 3BHK - 5.6-5.8mn	July-10
15	Sobha Althea	Yelanhanka	8.0	20	Super Luxury	176	3-4 BHK, Pent	2012-2128, 2937-2997	3325-3865	3BHK - 8.9-10.8mn, 4BHK - 13-15mn, Penthouse - 17-22mn	June-10
16	Sobha Chrysanthemum	Thanisandra	9.0	14	Luxury	509	3 BHK	1716-1867	3400-3901	7.7-9.0mn	June-10
17	Sobha Moonstone	Dasarahalli	1.9	13	Super Luxury	106	2-3 BHK	1455, 1804-2097	3325-3750	2BHK - 6.5mn, 3BHK - 8.0-9.5mn	January-10
18	Sobha Petunia	Hebbal Ring Road	4.0	12	Super Luxury	156	3-4 BHK, Pent	2274-3302, 3496-3738	4200-5500	3BHK - 12-19mn, 4BHK - 19-22mn	November-10
19	Sobha Lifestyle	Devanahalli	58.0	38	Presidential Villas	165	3-4 BHK	3851.70 , 6136.32	5945-7464	4BHK - 27-52mn	December-10
20	Sobha Topaz	Puzhakkal	55.0	NA	Super Luxury	216	3-4 BHK	2195, 3055	3019-3169	3BHK - 7.5-7.9mn, 4BHK - 10.4-11mn	NA
21	Sobha Carnation	Pune	5.6	8	Super Luxury	116	3-4 BHK, Pent	2165-2326, 2823-2857	3,900	3BHK - 8.8-10.2mn, 4BHK - 11.2-12.5mn, Penthouse - 20.2mn	June-10
22	Sobha Emerald	Vedapatti, Coimbatore	11.0	NA	Presidential Villas	62	4BHK	3573-5588	3,530	10.8-15mn	December-10
23	Sobha Scarlet	Jattihundi, Mysore	14.0	10	Presidential Villas	83	3-4 BHK	3229-5572	5,089	18.2-26.2mn	NA

Note: Details have been obtained through channel checks and not sourced from Sobha Developers Ltd; project details and prices are subject to change and may not reflect the current prices

Source: Centrum Research;

Our ground level study of the Pune property market reveals that the city is facing a problem of oversupply in the residential segment with incremental supply outstripping the incremental demand. Our talks with a number of home buyers and estate agents in Pune revealed that most demand is in the Rs2-4mn segment with few takers for apartments in the Rs5-6mn+ range.

Sobha's first project in Pune, Sobha Carnation, has been aggressively priced at Rs8.8mn and consists of 3-4 BHK apartments and penthouses. In the current scenario where IT companies are curtailing their expansion plans and salary hikes, we feel it is ill-advised to launch such costly apartments in Pune. Although Sobha faces no problems on the execution front, we are concerned that weak end-user demand for premium apartments may result in sluggish sales.

Improved sentiment in CY10, price correction to spur mild recovery in FY11
We believe 30-40% fall in property prices in Bangalore in FY09-10 and a mild recovery in the IT/ITES sector towards the end of FY10 would result in increased transaction volumes and help Sobha post improved sales numbers. However, we do not foresee any significant positive emerging from the reduction in interest rates for homes up to Rs3mn, as all of the company's ongoing projects are priced in the Rs5mn plus bracket.

Ridden with unviable assets and high leverage

We believe the company's high debt-equity ratio (1.9x as of end-Q1FY09) would impact its ability to mobilise funds for expansion and future projects. This, combined with a huge land bank still under development, could impact the company's finances in the current tight liquidity conditions.

Inadequate equity infusion at IPO responsible for high debt-equity ratio

Sobha came out with its IPO in November 2006, just before the boom in property stock which continued till January 2008. While most of its peers like DLF, HDIL and Puravankara were able to mobilise funds of over Rs8bn each, Sobha was able to generate only around Rs5.7bn of funds, which in our view is one of the major reasons the company has a high debt-equity ratio of 1.9x as of Q1FY09.

Aggressive post-IPO land bank expansion aggravated the problem

Further, post-IPO, Sobha undertook an aggressive land bank expansion where it grew its land bank by ~95% from 118mn sq ft of saleable area to 230mn sq ft as of Q1FY09, of which only ~11mn sq ft is currently under development. Although Sobha's average cost of land is still pretty reasonable at Rs120 per sq ft, the heavy borrowings to purchase the land in a boom phase has

Exhibit 3: Sobha's pre and post IPO land bank details

Land Band Details (Pre and Post IPO)			
Land Bank Pre-IPO (Mn sq ft)	**Current Land Bank - 30.06.2008 (Mn sq ft)**	**Land Bank added since IPO (Mn sq ft)**	**% Increase/(Decrease) in Land Bank since IPO**
118	230	112	95%

Source: Company, Centrum Research

Sobha faces pressure on repayment of dues

Sobha's debt repayment position as of Q1FY09 reflects the precarious situation that the company finds itself in. At the end of Q1FY09, Sobha was saddled with debt worth Rs19.5bn on its books, of which Rs9.9bn was due for refinancing over the next 12 months. If we consider the outstanding land payments of Rs5.6bn, the debt-equity ratio swells to 2.4x, which is we believe is a significant disadvantage in the current macro-economic environment.

Exhibit 4: Debt repayment position as of Q1FY09

Closing balance of debt as of 30 June 2008 (Rsbn)	19.5
Refinancing in next 12 months (Rsbn)	9.9
Outstanding land bank payment as of 30 June 2008 (Rsbn)	5.6
Debt-equity ratio without outstanding land bank payment (x)	1.9
Debt-equity ratio with land bank payment (x)	2.4

Source: Centrum Research

Internal accruals inadequate to meet repayment obligations

Although Sobha's recorded decent pre-sales during FY08 for a number of its ongoing projects (around 50% of its ongoing projects of ~11mn sq ft were sold as of Q1FY09 with ~Rs7bn of property sales yet to be recognized in the income statement), the slowdown in project execution coupled with no new projects being launched due to lack of funds is a matter of concern. With the company's operating cash flow estimated to be negative over FY09-11E due to rise in inventories and other current assets and a decline in customer advances, Sobha shall have to raise fresh debt or generate funds through an equity infusion or private equity route.

Accelerated revenue recognition policy an added risk

In Q1FY09 Sobha changed its accounting policy for revenue recognition (effective from April 2008) for the sale of undivided share of land on the basis of a threshold collection of dues from the buyer. While previously the company recognized the revenue on land agreements only on 20% project completion (threshold limit), the new policy recognizes revenues on land agreement when 20% of the booking amount has been collected and the sale agreement has been finalized. This leads to an early recognition of revenues in the income statement while there may be a delay in project execution. As a result, although the topline may show a marginal growth in FY09E and FY10E, it may not necessarily result in improved internal accruals for the company. In Q1FY09, the new accounting policy resulted in additional revenue recognition of Rs334mn and additional PAT of Rs111mn. When we adjust these numbers, PAT actually declined 3.4% YoY instead of the 23.8% YoY growth.

Exhibit 5: Impact of change in accounting policy

Y/E March (Rsmn)	Q1FY08	Q1FY09A	Q1FY09(adj)
Net sales	2,678	3,481	3,147
PAT (adjusted)	408	505	394
NPM (%)	15.2	14.5	12.5
Sales growth % (YoY)		30.0	17.5
PAT growth % (YoY)		23.8	(3.4)

Source: Company, Centrum Research

Efforts to raise funds may prove ineffective in a bear market

Sobha has been able to successfully rollover Rs3.5bn of debt in Q1FY09. Further, it has also received funding worth US$10mn at SPV level from Pan Atlantic, a Dubai-based PE firm for a 40% stake in a group housing project at Hosahalli, Bangalore spread over 1.7mn sq ft. However, these infusions are unlikely to have any large impact going forward as the funds received from Pan Atlantic have already been recognized as revenues in Q1FY09 and the company still needs to refinance Rs9.9bn worth of debt up to Q1FY10.

The company had also planned to raise about Rs3.5bn through a rights issue in Q2FY09 to reduce its debt-equity ratio, but the severe beating down of real estate stocks has forced the company to go slow on the same. We believe the rights issue may result in an equity dilution for existing shareholders of the company. Further, as promoters hold 87% of the company, the onus will have to be on the promoters for the fund infusion which may not happen immediately. Accordingly, we have not assumed any fresh infusion of equity in our estimates and continue to remain bearish on the funding prospects of the company.

Slowdown in IT sector to impact contracting business

Exhibit 6: Sobha's ongoing contracting projects

Ongoing Projects	
No. of projects	33
Buildup area (msf)	7.76
Billing Value (INR m)	7,387

Source: Company, Centrum Research

We believe that in the current weakness prevailing in real estate markets, the contracting and manufacturing businesses provide a degree of cushion to Sobha as they are a stable source of cash flows for the company. The company had an order book worth Rs7,387mn as of Q1FY09 and we believe it shall be able to generate adequate revenues over FY09-11E, with even a very marginal order inflow of an additional 2-3mn sq ft during this period. Accordingly, we have valued the contracting and manufacturing businesses on an FY09E EBITDA multiple of 5x.

Contracting business has proved a good strategic move for Sobha

Sobha made its entry into the contracting business in 1999 with an objective of gaining expertise in construction of high-end commercial space and also to provide a degree of stability to the overall business of the company. The company has been successful in establishing a brand name for itself in the construction space and has so far completed 118 projects having construction area of over 13mn sq ft spread over 14 cities in 8 Indian states. Although the construction business provides margins of 10-15% compared to 30-40% in real estate development, the business acts as a cash cow and does not require huge capital investments.

Exhibit 7: Sobha's completed contracting projects

Completed Projects	Cumulative as on Jun'08
No. of projects	118
Buildup area (msf)	13.26
Billing Value (INR m)	19,592

Source: Company, Centrum Research

Reducing dependence on Infosys

While Infosys Technologies was Sobha's only client in the past, other clients like Dell, Hewlett Packard and Indian Hotels now account for 20% of the revenues as of FY08. Sobha expects to maintain an annual run-rate of 3.5-4mn sq ft in its contracting business over FY09-11E.

Exhibit 8: Reduced dependence on Infosys

Rs mn	FY04	FY05	FY06	FY07	FY08
Contractual income	1,135	2,888	2,024	3,028	3,856
% of total revenues	58	64	34	26	27
Infosys share	1,074	2,780	1,679	2,664	3,171
% contractual from Infosys	95	96	83	88	82

Source: Company, Centrum Research

Manufacturing business strengthens execution skills

The manufacturing business, which is dependent on the real estate and contracting businesses, provides the advantages of backward integration to Sobha which enables the company to finish its projects on time and is also able to supply the company with skilled personnel through the Sobha Training Academy.

Exhibit 9: Details of manufacturing business

Products	Concrete Products Concrete blocks, kerbstones, pavers	Glazing Unit Metal fabrication - Glazing	Interior Unit Furniture & Woodwork
Factory Area (mn sq ft)	**0.35**	**0.34**	**0.82**
Investment (INR m)	**350**	**115**	**765**
No. of Employees	**93**	**1,177**	**1,350**

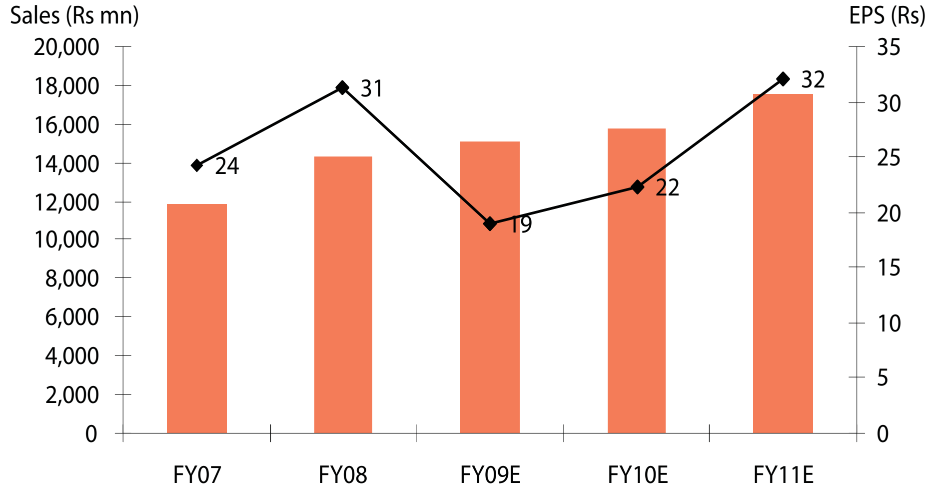
Source: Company, Centrum Research

Financial Analysis

Sluggish sales during FY09-10E, recovery likely in FY11E

We expect the company to register 7% revenue CAGR over FY08-FY11E to Rs17,594mn from Rs14,291mn in FY08. We attribute sluggish sales growth to muted transaction volumes over FY09-10E and the expected 30% fall in residential property prices in Bangalore. Further, Sobha's change in accounting policy to a more aggressive revenue recognition method makes us cautious on our earnings estimates going forward. We estimate a de-growth in EPS in FY09 to Rs19 from Rs31 per share with a recovery in FY11 to Rs32 per share on par with FY08 EPS levels. We have not factored in any dilution from the rights issue.

Exhibit 10: Sales growth to recover in FY11E



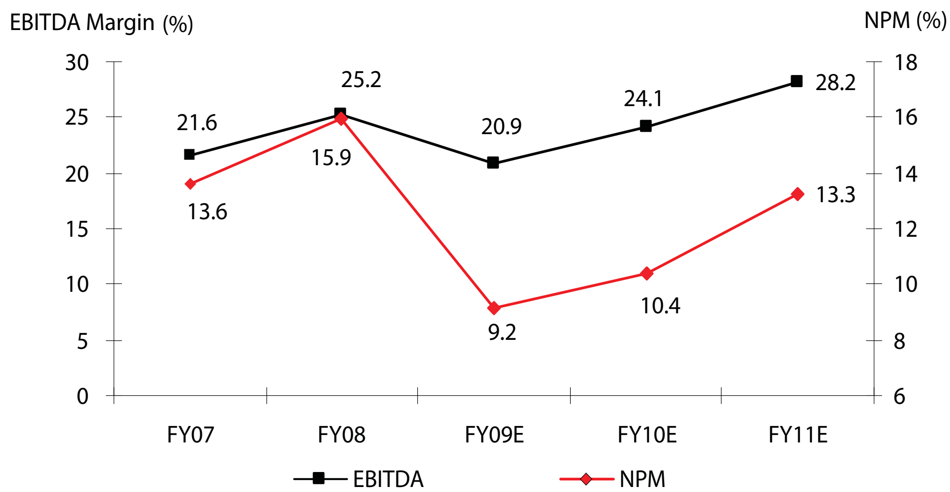
Source: Company, Centrum Research

We expect a recovery in FY11E as a result of an improved macro-economic environment and renewed demand for quality housing leading to increased volume off-take in the residential segment at affordable prices. We do not expect any significant change in the contribution of residential sales to overall revenues and estimate that revenues from contracting and manufacturing shall accrue at an annual run-rate of 3.5-4mn sq ft over FY09-11E.

Margins expected to dip on account of interest costs and higher tax rate

Although we expect Sobha to sustain its EBITDA margins over FY09-11E due to anticipated reduction in construction costs as a result of steep decline in cement and steel prices, we expect a dip in net margins over the same period on account of increase in interest costs due to the company's high leverage and an increase in the tax rate to 25% due to benefits under section 80IB ending. Net margins are expected to recover in FY11E to 13.3%, but will still be lower than the net margin of 15.9% in FY08.

Exhibit 11: EBITDA and net profit margins to remain subdued



Source: Company, Centrum Research

Valuations

Core real estate business valued at Rs103 per share

We valued Sobha's real estate business using DCF-based NAV from ongoing projects taking into account macroeconomic headwinds, weak consumer sentiment, high exposure to real estate in an over-supplied Bangalore market, execution delays, large unpaid land bank and high D/E ratio.

We have estimated the NAV of the real estate business by only considering development of ongoing projects and have not included any fresh launches in FY09-11E. Further, we have valued the undeveloped land bank of 220mn sq ft at a 30% discount to the existing market rates as we believe that Sobha may have to sell off certain portions of its land bank to service its debt requirement. Discounting the cash flows from ongoing projects at 17% and adjusting for net debt and outstanding land payments as of FY10E, we get a discounted NAV of Rs103 per share.

Exhibit 12: NAV valuation of real estate business

Valuation of Sobha on estimated NAV basis	INR Mn
Post-Tax GAV of Ongoing Projects	7,419
Valuation of Land @ 150 Rs/psf	27,000
Total Value of Land & Ongoing Projects	34,419
Less : Net debt (as on 31st Mar'09)	21,628
Less : Balance due for purchase of land (as on 30 Sep'08)	5,300
Estimated NAV	7,491
No. of Shares (mn)	73
NAV/Share	103

Source: Centrum Research

Contracting and manufacturing business valued at Rs37 per share

We have valued Sobha's contracting and manufacturing business at Rs37 per share using EBITDA multiple of 5x for both segments. The value of contracting business is Rs23 per share and the manufacturing business is valued at Rs14 per share, resulting in a valuation of Rs37 per share.

Exhibit 13: Valuation of contracting and manufacturing business

Other Businesses	Contracting	Manufacturing
Sales FY09E (Rs mn)	3,332	2,040
EBITDA Margin (%)	10	10
1 Year Forward EBITDA	333	204
EBITDA Multiple (x)	5	5
Value of Business Segment	1666	1020
No.of Shares (mn)	73	73
Value per Share	23	14

Source: Centrum Research

SOTP target price of Rs56 per share

Using a SOTP valuation, we arrive at target price of Rs56 per share at a 60% discount to NAV due to the high leverage and unviability of ongoing projects. We have been conservative in estimating realisations from real estate business and believe that the negatives surrounding the company have not yet been factored into our target price. We initiate coverage with a Sell rating on the stock with a downside of 36%.

Exhibit 14: Sobha's SOTP valuation

SOTP Valuation per Share	INR per share
Contracting	23
Manufacturing	14
Real estate NAV	103
SOTP NAV	**140**
Discount to NAV (%)	60
Target Price	**56**

Source: Centrum Research

Risks

Key upside risks to our call

A quicker-than-anticipated recovery in the macro-economic environment and reduction in interest rates. Revival in the IT/ITES sector leading to increased demand for residential and commercial properties.

Sobha currently follows a conservative FSI assumption of 1.2x on its land bank compared to a peer like Puravankara Projects which uses a FSI assumption of 3.1x on its land bank. A change in its FSI assumption policy could result in an increase in saleable area from its existing land bank.

Annexure

Exhibit 15: Sobha's completed projects (as of 30 June 2008)

Description	Location	Types	No. of Projects	Total Area (Sq Ft)
Residential	Bangalore	Apartments	31	7,404,249
		Row Houses	5	645,168
		Villas	1	89,986
	Coimbatore	Plotted Development	1	1,164,359
Sub-Total			**38**	**9,303,762**
Others (Commercial, Factories, Shops)	Bangalore	Factories	6	3,104,492
		Commercial	2	109,178
		Shops & Educational	3	38,211
Sub-Total			**11**	**3,251,881**
Grand Total			**49**	**12,555,643**

Source: Company, Centrum Research

Exhibit 16: Ongoing projects (as of 30 June 2008)

Description	Location	Types	No. of Projects	Total Area (Sq Ft)
Residential	Bangalore	Apartments	21	6,224,135
		Row Houses	3	205,368
		Villas (Plots)	1	1,170,972
	Thrissur	Apartments	3	1,606,214
		Villas (Plots)	1	126,475
	Coimbatore	Villas (Plots)	1	265,759
	Pune	Apartments	1	301,060
Sub-Total		Club House, Service	**31**	**9,899,983**
Others (Office, Club Houses)	Bangalore	Apartments & Offices	5	380,003
	Thrissur	Club House	1	32,000
	Coimbatore	Club House	1	15,000
Sub-Total			**7**	**427,003**
Grand Total			**38**	**10,326,986**

Source: Company, Centrum Research

Exhibit 17: Open land bank (as of 30 June 2008)

Location	SBA (Mn Sq Ft)
Bangalore	80.21
Mysore	1.81
Cochin	28.01
Thrissur	0.82
Chennai	29.07
Hosur	39.17
Coimbatore	3.59
Hyderabad	4.25
Pune	7.90
Gurgaon	2.13
Total	**196.96**

Source: Company, Centrum Research

Financials

Profit & Loss Account

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	**11,865**	**14,291**	**15,135**	**15,711**	**17,594**
Growth in revenues (%)	89.8	20.5	5.9	3.8	12.0
Operating expenses	9,297	10,689	11,967	11,927	12,636
% of net sales	78.4	74.8	79.1	75.9	71.8
EBITDA	**2,567**	**3,603**	**3,168**	**3,784**	**4,958**
y-o-y growth (%)	85.7	40.3	(12.1)	19.5	31.0
EBITDA Margin (%)	21.6	25.2	20.9	24.1	28.2
Dep. & Amortisation	244	350	454	480	538
Other Income	29	53	22	30	48
EBIT	**2,352**	**3,306**	**2,736**	**3,334**	**4,468**
Interest expenses	486	597	954	1,158	1,350
EBT before extraord. items	**1,866**	**2,709**	**1,782**	**2,176**	**3,117**
Extraordinary Income/(Exp)	0	0	0	0	0
EBT	**1,866**	**2,709**	**1,782**	**2,176**	**3,117**
Provision for tax	251	426	392	544	779
Effective tax rate (%)	13.4	15.7	22.0	25.0	25.0
Net Profit bef min int	**1,615**	**2,283**	**1,390**	**1,632**	**2,338**
Minority interest	0	0	0	0	0
Net Profit after min int	**1,615**	**2,283**	**1,390**	**1,632**	**2,338**
Extra-ordinary income/ (exp)	0	0	0	0	0
Adjusted Net Profit	**1,615**	**2,283**	**1,390**	**1,632**	**2,338**
y-o-y growth (%)	82.5	41.3	(39.1)	17.4	43.3
Adjusted Net Profit Margin (%)	13.6	15.9	9.2	10.4	13.3

Source: Company, Centrum Research

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
CF from operating					
Profit before tax	1,866	2,709	1,782	2,176	3,117
Depreciation	244	350	454	480	538
Interest expenses/(income)	452	544	954	1,158	1,350
Other Non op. (income)/exp.	(19)	(103)	(22)	(30)	(48)
OP bef WC change	**2,544**	**3,500**	**3,168**	**3,784**	**4,958**
Working capital adjustment	(7,105)	(13,605)	(4,583)	(4,347)	(5,496)
Gross CF from operations	(4,561)	(10,105)	(1,415)	(562)	(538)
Direct taxes paid	(307)	(460)	(392)	(544)	(779)
Others	0	0	0	0	1
Cash from operations	**(4,868)**	**(10,565)**	**(1,807)**	**(1,106)**	**(1,317)**
Cash flow from investing					
Capex	(1,171)	(544)	(908)	(864)	(968)
Investment	(501)	300	(150)	(150)	0
Other Income	49	54	22	30	48
Cash from investment	**(1,623)**	**(190)**	**(1,036)**	**(984)**	**(920)**
Cash flow from financing					
Proceeds from sh cap & pre.	5,646	0	0	0	0
Borrowings/ (Repayments)	1,606	11,794	4,500	4,000	4,000
Interest expenses	(520)	(1,123)	(954)	(1,158)	(1,350)
Dividend paid	(7)	(474)	(325)	(382)	(548)
Cash from financing	**6,725**	**10,197**	**3,220**	**2,460**	**2,102**
Net cash increase/ (dec)	**234**	**(558)**	**377**	**369**	**(135)**
Opening Cash Balance	450	684	126	503	872
Closing Cash Balance	684	126	503	872	737

Source: Company, Centrum Research

Balance Sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	729	729	729	729	729
Reserves	7,426	9,154	10,219	11,468	13,259
Shareholders' fund	8,155	9,883	10,948	12,197	13,988
Minority Interest	0	0	0	0	0
Debt	5,837	17,631	22,131	26,131	30,131
Deferred Tax Liability	22	0	0	0	0
Total Capital Employed	**14,015**	**27,514**	**33,078**	**38,328**	**44,118**
Total Fixed Assets	1,948	2,142	2,596	2,980	3,410
Goodwill	0	0	0	0	0
Investments	528	294	444	594	594
Inventories	3,778	7,879	10,935	12,603	15,201
Debtors	1,580	5,452	5,805	7,317	9,158
Cash & bank balances	684	126	503	872	737
Loans and Advances	11,158	17,282	19,489	20,876	23,137
Total current assets	17,199	30,738	36,732	41,668	48,233
Current liab. & prov.	5,660	5,670	6,704	6,925	8,129
Net current assets	11,539	25,067	30,028	34,743	40,104
Deferred Tax Asset	0	11	11	11	11
Total Assets	**14,015**	**27,514**	**33,078**	**38,328**	**44,118**

Source: Company, Centrum Research

Ratio Analysis

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Margin Ratios (%)					
EBITDA Margin	21.6	25.2	20.9	24.1	28.2
PBIT Margin	19.8	23.0	18.1	21.2	25.3
PBT Margin	15.7	18.9	11.8	13.8	17.7
PAT Margin	13.6	15.9	9.2	10.4	13.3
Growth Ratio (%)					
Revenue	89.8	20.5	5.9	3.8	12.0
EBITDA	85.7	40.3	(12.1)	19.5	31.0
Net Profit	82.5	41.3	(39.1)	17.4	43.3
Return Ratios (%)					
ROCE	15.0	10.5	7.1	7.3	8.4
ROIC	16.4	10.6	7.3	7.6	8.6
ROE	19.8	23.1	12.7	13.4	16.7
Per share Ratios (Rs)					
Basic EPS	24.3	31.3	19.1	22.4	32.1
Fully diluted EPS	24.3	31.3	19.1	22.4	32.1
Book value	122.9	135.6	150.2	167.3	191.9
Gearing Ratio (x)					
Debt-equity	0.7	1.8	2.0	2.1	2.2
Interest coverage ratio	4.8	5.5	2.9	2.9	3.3
Valuation (x)					
P/E (Fully Diluted)	3.6	2.8	4.6	3.9	2.7
P/BV	0.7	0.6	0.6	0.5	0.5
EV/EBITDA	9.3	6.6	7.5	6.3	4.8
EV/Sales	2.0	1.7	1.6	1.5	1.4
M-cap/Sales	0.5	0.4	0.4	0.4	0.4

India

Real Estate

CENTRUM

Puravankara Projects

Initiation

30 January 2009

Reduce

Target Price: Rs35

CMP: Rs39*

Downside: 11%

*as on 29 January 2009

Quality play overshadowed by Bangalore

- **Healthy balance sheet, low debt-equity ratio balances short-term liquidity concerns:** A model balance sheet with a debt-equity ratio of 0.6x and low outstanding payments of Rs50mn on its land bank is a positive However, a debt of Rs8bn poses a risk in case of a prolonged slowdown in the sector.

- **Diversification strategy fruitful over the long-term:** Puravankara has diversified into Mysore, Chennai, Kochi and Kolkata. A majority of its land bank is metro-centric and part of its diversification strategy, commercial projects should comprise 23% of its land bank.

- **Venture into affordable housing:** Puravankara's foray into affordable housing through its 100% subsidiary, Provident Housing and Infrastructure, and reduction in interest rates for housing loans in the sub-Rs2mn bracket are long-term positives.

- **Concerns on concentration in Bangalore:** Puravankara's land bank concentration in Bangalore and focus on residential projects make it vulnerable to a slowdown in sales-off take, especially in Bangalore where affordability levels have risen to 86% in CY07.

- **High FSI land bank:** Average FSI for Puravankara's land bank is high at 3.1x with the FSI going above 4x in Hyderabad and Kochi. Any change in FSI norms may impact Puravankara's NAV significantly.

- **Execution delays, liquidity concerns may impact valuations, Reduce:** We expect 17% net sales CAGR over FY08-11E mainly due to high pre-sales and increase in transaction volumes on 30% correction in residential prices. We initiate coverage with a Reduce rating and a target price of Rs35, a 40% discount to NAV to reflect execution delays and sector-specific liquidity concerns.

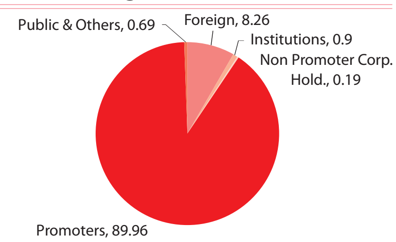
Key Data

Bloomberg Code	PVKP IN
Reuters Code	PPRO.BO
O/S Shares (mn)	213.4
Diluted Shares (mn)	213.4
Market Cap (Rs bn/US$ mn)	8.2/167.6
52 Wk H / L (Rs)	385/26
Daily Vol. (3M NSE Avg.)	2,12,175
Face Value (Rs)	5
Free Float (%)	33.9

1 US$ = Rs49.0

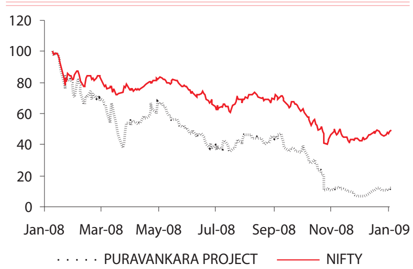
Source: Bloomberg

Shareholding Pattern



As on 31st December 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	1M	6 M	1 Yr
Puravankara Project	(19.6)	(78.7)	(89.5)
Nifty	(2.5)	(32.0)	(46.0)

Source: Bloomberg, Centrum Research

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Key Financials (Rsmn)

Y/E Mar	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY %	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	4,169	49.0	1,361	32.6	1,291	68.5	6.7	58.2	13.3	5.9	10.7
FY08	5,658	35.7	2,133	37.7	2,400	85.9	11.2	19.8	11.5	3.5	6.8
FY09E	6,378	12.7	2,337	36.6	2,051	(14.6)	9.6	14.7	8.8	4.1	6.2
FY10E	7,877	23.5	2,806	35.6	2,313	12.8	10.8	14.5	8.2	3.6	5.2
FY11E	9,002	14.3	3,387	37.6	2,599	12.4	12.2	14.2	7.8	3.2	4.3

Source: Centrum Research

Shareholding Pattern (%)

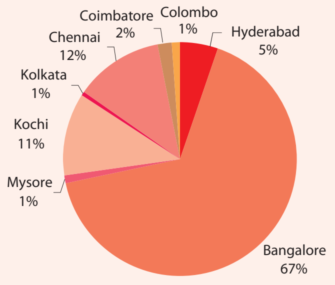
	Q408	Q109	Q209	Q309
Promoter	89.9	89.9	89.9	89.9
Foreign	7.7	7.9	8.3	7.9
Institutions	1.3	1.1	0.9	0.9
Public & others	1.1	1.1	0.9	1.2
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE

Company Background

Puravankara Projects is a real estate developer with quality land bank of 127mn sq ft and track record of project execution in major cities of south India, Colombo and the UAE. Puravankara has over 33 years of experience in property development and is an integrated real estate developer spanning operations comprising land identification and acquisition, planning & execution with an in-house marketing team. Puravankara has also entered into JV with Singapore-based Keppel Land to develop two large projects in Bangalore and Kolkata.

Puravankara: Landbank breakup as of Q2FY09



Source: Company, Centrum Research

Puravankara: Key events/timeline

1986	Incorporated in as Puravankara Constructions Private Ltd
1986	First project in Mumbai launched by Company
1990	First residential project launched in Bangalore
2004	Company sets up operations in Chennai
2005	Company enters into JV with Keppel Investment Mauritius Pvt Ltd
2005	Company sets up operations in Kochi
2007	Listed on BSE & NSE

Source: Company, Centrum Research

Key management personnel

Name	Position	Profile
Mr. Ravi Puravankara	Chairman & Managing Director	Mr. Ravi Puravankara has been associated with the real estate sector since 1975 and has been involved in several real estate ventures. He is also the founder of the company. He was the former President of the International Real Estate Federation (FIABCI), Indian Chapter, Paris.
Mr. Ashish Puravankara	Director	Mr. Ashish Puravankara is a Director on the board since July 2000 and holds a Bachelors Degree in Business Administration form Virginia State University and MBA from Wilamette University in Salen, Oregon. He is the head of Business & Operations in Chennai.
Mr. Nani R. Choksey	Director	Mr. Nani R. Choksey has over 32 years of experience in real estate development, construction and finance sectors and is a founder director of the company.
Mr. Ravi Ramu	Director	Mr. Ravi Ramu holds a Bachelors degree in commerce and is a member of Institute of Chartered Accountants of England and Wales and India. He has served as Group CFO in Mphasis BFL and Senior Partner and Head of Information, Communication and Entertainment practice at KPMG India. He has 29 years of experience in the areas of finance, systems and procedures and currently oversees the finance and accounting function of the group.

Source: Company

Investment Rationale

- Low debt/equity ratio and transparent disclosures will enable the company to tide over near-term liquidity concerns.
- Recent foray into affordable housing to prove fruitful over the long term.
- Company's ongoing project concentration in the Bangalore market in the luxury residential segment is a medium-term concern

Debt repayment status (Q1FY09)

Details	Rs mn
Estimated funds req. for ongoing projects	4,000
Add: Payables on land bank	50
Add: Payment of existing debt	5,000
Total funding requirement	**9,050**
Less: Internal accruals	7,127
Net funding requirement	**1,923**

Source: Centrum Research

Summary Financials

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Key Income Statement Data					
Revenue	4,169	5,658	6,378	7,877	9,002
YoY growth (%)	49.0	35.7	12.7	23.5	14.3
Operating profit	1,361	2,133	2,337	2,806	3,387
YoY growth (%)	52.7	56.8	9.5	20.1	20.7
Operating margin	32.6	37.7	36.6	35.6	37.6
Depreciation	25	59	77	79	90
Interest expenses	46	36	125	157	181
Other non operating income	33	135	45	50	55
PBT	1,463	2,467	2,330	2,820	3,420
Provision for tax	172	67	280	508	821
Minority interest	0	0	0	0	0
PAT (adjusted)	1,291	2,400	2,051	2,313	2,599
YoY growth (%)	68.5	85.9	(14.6)	12.8	12.4
PAT margin	30.7	41.4	31.9	29.2	28.7
Key Cash Flow Statement Data					
Cash generated from operations	(534)	(1,191)	(802)	(934)	(727)
Cash flow from investing activities	(4,277)	(5,106)	(1,247)	(1,271)	(1,070)
Cash flow from financing activities	4,741	6,273	2,161	2,358	1,764
Net cash increase/decrease	(71)	(24)	112	153	(32)
Key Balance Sheet Data					
Shareholders' fund	2,218	12,127	13,938	15,980	18,275
Debt	6,772	6,534	9,060	11,845	14,095
Minority Interest	0	0	0	0	0
Total Capital Employed	8,989	18,661	22,998	27,825	32,370
Fixed Assets	7,397	13,416	14,782	16,224	17,508
Investments	371	887	887	887	887
Net current assets	1,221	4,358	7,329	10,714	13,974
Total Assets	8,989	18,661	22,998	27,825	32,370
Key Ratio					
ROCE	13.3	11.5	8.8	8.2	7.8
ROIC	14.5	12.3	9.4	8.6	8.2
ROE	58.2	19.8	14.7	14.5	14.2
Per share Ratios (Rs)					
Fully diluted EPS	6.7	11.2	9.6	10.8	12.2
Book value	11.5	56.8	65.3	74.9	85.6
Solvency Ratio (x)					
Debt-equity	3.0	0.5	0.6	0.7	0.8
Interest coverage ratio	29.9	60.7	18.5	17.7	18.5
Valuation parameters(x)					
P/E (Fully Diluted)	5.9	3.5	4.1	3.6	3.2
P/BV	3.4	0.7	0.6	0.5	0.5
EV/EBITDA	10.7	6.8	6.2	5.2	4.3
EV/Sales	3.5	2.6	2.3	1.9	1.6

PAT margins to contract in FY09 and stabilise thereafter

Debt/equity ratio to remain stable

Source: Company, Centrum Research

Investment Argument

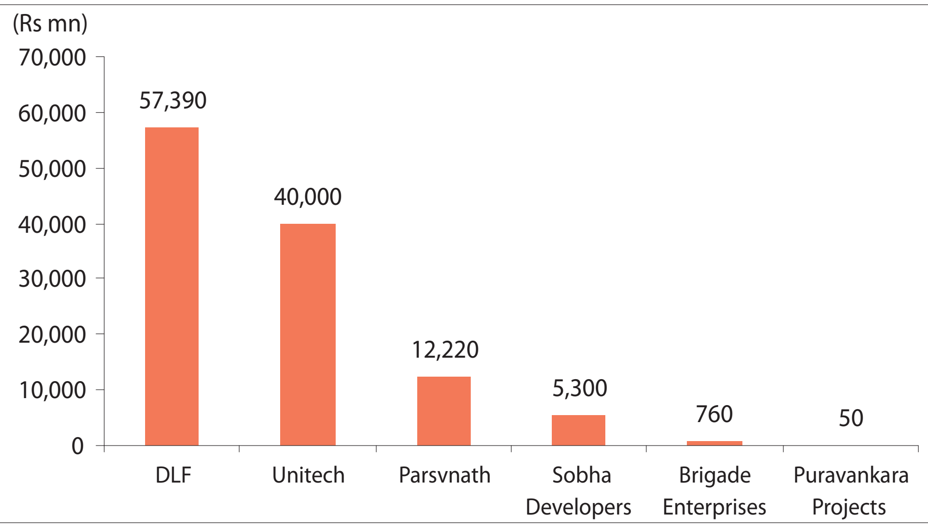
Healthy BS, low D/E balances short-term liquidity concerns

In an environment of tight liquidity and funding for real estate projects drying up, companies with low debt-equity ratio coupled with low outstanding land payments are well placed to survive the current slowdown. We believe Puravankara is well-placed among its peers in this context and shall be able to tide over its short-term liquidity concerns.

Low outstanding land payment of Rs50mn

Puravankara has amassed low-cost land bank on the outskirts of Bangalore and other cities. It has acquired land at an average cost of mere Rs124 per sq ft, including land bank in Hyderabad that has been largely been paid for. As of Q2FY09, Puravankara had outstanding land payments of Rs2,350mn of which Rs2,300mn was due towards the company's High Tech City project at Hyderabad spread over 20 acres. However, the company recently cancelled this land purchase agreement with the Andhra Pradesh government and since has outstanding land payment of just Rs50mn. This compares favorably with peers like DLF, Sobha Developers, Unitech and Parsvnath, all of whom have outstanding land payments in excess of Rs1bn.

Exhibit 1: Purvankara: Outstanding land payments among the lowest



Note: As on 30 Sept 2008
Source: Company, Centrum Research

Lower D/E to help tide over short-term debt concerns

Puravankara's debt-equity ratio of 0.6x is the lowest among listed peers in the real estate sector as of end Q2FY09. However, its debt has risen from Rs6.5bn (as at 31 March 2008) to Rs8bn as of 30 Sept 2008. Further, Rs5bn of this amount is set to mature over the next 12 months. The current slowdown in announcement of new project launches and slackening transaction volumes in H1FY09 have added to Puravankara's woes. However, we believe that the company's high pre-sales, with about 60-65% of its ongoing projects being pre-sold, and low debt-equity should enable it to raise fresh funds along with refinancing of its existing debt obligations.

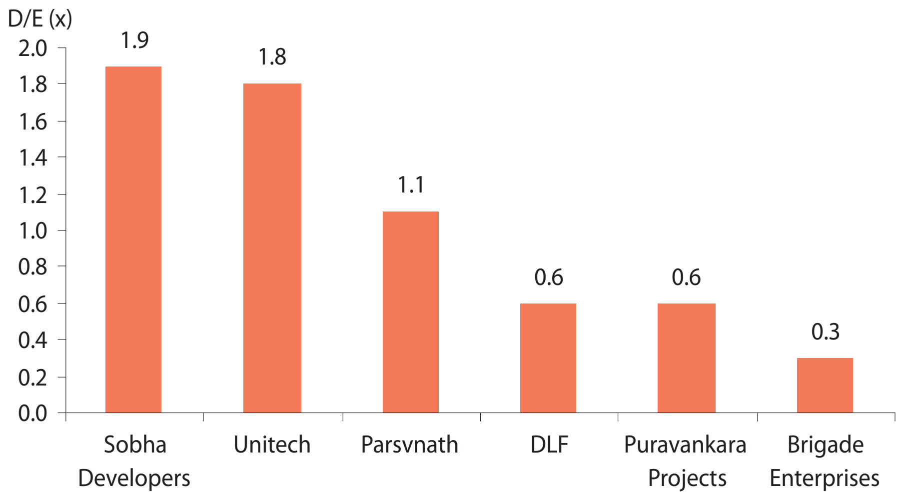
Exhibit 2: Puravankara funding requirements (Q3FY09-Q2FY10E)

Details	Rs Mn
Estimated funds req. for ongoing projects	4,000
Add: Payables on land bank	50
Add: Payment of existing debt	5,000
Total funding requirement	**9,050**
Less: Internal accruals	7,127
Net funding requirement	**1,923**

Source: Company, Centrum Research

Our interaction with the management indicates that the company is in talks to refinance a portion of its debt and is also looking to raise additional funds for its ongoing projects. Although we have not considered any accruals from the affordable housing projects by subsidiary Provident Housing & Infrastructure in our funding requirement estimate, we believe that once the project receives the necessary approvals, funding from financial institutions may be more forthcoming.

Exhibit 3: Superior debt-equity ratio vs peers



Note: As at end Q2FY09
Source: Company Reports, Centrum Research

Transparent financial disclosure - a key differentiator

Puravankara follows an excellent system of financial disclosures and provides audited balance sheets and cash flow statements on a quarterly basis with clear bifurcation of projects under three categories – properties held for development, properties under development and properties held for sale, which gives a clear picture of its project pipeline, inventory and sales to be recognized on a quarterly basis. Further, the company also provides quarterly figures for advances for land contracts in its balance sheet. The company's transparency in financial disclosures reflects its strong corporate governance.

Clear bifurcation of properties under construction and held for sale

Exhibit 4: Puravankara's strong financial disclosures

Y/E March (Rs mn)	FY06	FY07	FY08
Equity Share Capital	80	960	1,067
Reserves	1,034	1,258	11,060
Shareholders' fund	**1,114**	**2,218**	**12,127**
Minority Interest	0	0	0
Debt	1,622	6,761	6,524
Deferred Tax Liability	1	11	10
Total Capital Employed	**2,738**	**8,989**	**18,661**
Total Fixed Assets	175	389	497
Investments	231	371	887
Properties held for development	3,068	7,008	12,920
Inventories	191	159	171
Debtors	446	459	824
Cash and bank balances	444	374	350
Properties under development	1,577	2,471	3,958
Properties held for sale	201	515	910
Loans and Advances	1,186	2,327	2,878
Total current assets	4,046	6,305	9,090
Current liabilities and provisions	4,782	5,084	4,732
Net current assets	(737)	1,221	4,358
Miscellaneous Expenditure	0	0	0
Total Assets	**2,738**	**8,989**	**18,661**

Source: Company, Centrum Research

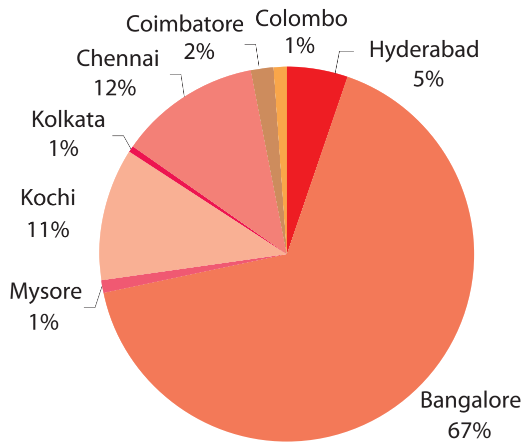
Diversification strategy fruitful over the long-term

Puravankara has launched projects in other cities in south India and expanded into property commercial development to de-risk from concentration in a single region (Bangalore). Moreover, its foray into affordable housing (through its 100% subsidiary, Provident Housing and Infrastructure) coupled with reduction in interest rates for housing loans in the sub-Rs2mn bracket are long-term positives.

Increased presence in Kochi, Chennai, Hyderabad, Kolkata and Mysore

While 95% of Puravankara's completed residential projects of 5.8mn sq ft are in Bangalore, the company has also launched residential projects in Kolkata, Chennai, Kochi and Mysore apart from acquiring land in these cities. This would insulate the company against any sustained slowdown in the Bangalore market. Further, it has also expanded into overseas markets through the acquisition of around 1mn sq ft of land in Colombo, Sri Lanka where it plans to launch luxury villas and row houses.

Exhibit 5: Puravankara: Landbank breakup as of Q2FY09



Source: Company, Centrum Research

Expanding into commercial property development

Puravankara has now forayed into development of commercial space with ongoing commercial projects in Bangalore, Chennai and Hyderabad.. The company has additional land bank of around 23mn sq ft, which it intends to utilize for commercial development in future.

However, as outlined by the company's management in its Q2FY09 concall, three of its five ongoing commercial projects consisting of around 0.9mn sq ft have been put on hold in view of the current slowdown in real estate markets. As a result, we have factored in a delay of 12-18 months for the launch of these commercial projects and we expect revenues from these projects to accrue only from FY11 onwards.

Exhibit 6: Puravankara: Landbank breakup (segment and geography-wise)

Saleable area (msf)	Residential		Commercial		Total Land Bank		Total	% of
	Ongoing	Future	Ongoing	Future	Ongoing	Future	Land Bank	Land Bank
Bangalore	7.90	51.20	0.61	12.85	8.51	64.05	72.56	63
Chennai	3.84	10.57	0.46	1.56	4.30	12.13	16.43	14
Kochi	2.06	6.00		5.25	2.06	11.25	13.31	11
Hyderabad		3.54	0.27	2.36	0.27	5.90	6.17	5
Coimbatore		2.36			0.00	2.36	2.36	2
Kolkata	0.82	0.94			0.82	0.94	1.76	2
Mysore	0.10	1.18		0.78	0.10	1.96	2.06	2
Colombo		1.38			0.00	1.38	1.38	1
Total	**14.72**	**77.17**	**1.34**	**22.80**	**16.06**	**99.97**	**116.03**	**100**

Source: Company, Centrum Research

Entry into affordable housing a good strategic move

As highlighted, over 40% of the demand in Bangalore is for properties in the sub Rs4mn bracket, a market which most developers have failed to address during the last three years. In the current environment, the correct strategy for developers is to cater to the demand for houses in this income segment, an issue which is being addressed by Puravankara through its foray into affordable housing via its 100% subsidiary Provident Housing & Infrastructure (PHIL).

Exhibit 7: PHIL project details – Phase I

Location	No. of homes	Area (Mn sq ft)	Avg Area per Unit (sq ft)
Bangalore	19,500	19.3	990
Chennai	16,000	14.4	900
Hyderabad	15,000	13.5	900
Mysore	7,000	6.3	900
Coimbatore	7,000	6.3	900
Total	**64,500**	**59.8**	**927**

Source: Company, Centrum Research

In phase I, PHIL intends to launch around 65,000 homes in the price range of Rs1-2mn consisting of 1-2-3 BHK flats compared to its existing price range of Rs4-8mn in Bangalore. PHIL's focus for the first phase of the affordable housing project will be concentrated mainly in Bangalore, Hyderabad and Chennai, the three key property markets of South India. In phase II, the company plans to target the cities of Delhi, Kolkata, Coimbatore, Jaipur, Pune, Nagpur, Kochi and Mysore.

The land for phase I of the project comprising of 60mn sq ft of developable area includes 40 acres (1.74mn sq ft) of its existing land bank of 127mn sq ft (developable area) while the management has stated that the remaining land required for phase I is already in the company's possession and has been fully paid for. Puravankara expects PHIL to launch the Bangalore part of the project in Q4FY09 and the project is currently in the planning and development stage and expects to receive the necessary approvals in FY09.

However, we remain cautious on the near-term visibility for the affordable housing project as Puravankara intends to sell its stake in PHIL to PE funds to finance the project and accordingly we have not included the project in our NAV estimates pending further visibility on the project. The recent decision by PSU banks to provide concessional interest rates on home loans in the sub-Rs2mn bracket is another positive for Puravankara's affordable housing foray.

Concerns on over-concentration and high FSI land bank

We believe Purvankara's concentration at a single location (Bangalore) coupled with the high FSI of its land bank increases the risk in an already difficult business environment. Bangalore faces a problem of oversupply coupled with inadequate infrastructure which has led to transaction volumes dipping by 25-30% coupled with a 10-15% correction in residential and commercial prices.

Majority of ongoing residential projects concentrated in Bangalore

As of end Q2FY09, Puravankara's land bank stood at 127mn sq ft of developable area and 118mn sq ft of saleable area. Of this, the major portion of the saleable area is in Bangalore with 78mn sq ft of saleable area comprising of 67% of the company's existing land bank. Among its ongoing residential projects, the concentration in Bangalore is even higher with around 48% of its projects in that city.

Exhibit 8: Puravankara's ongoing residential projects

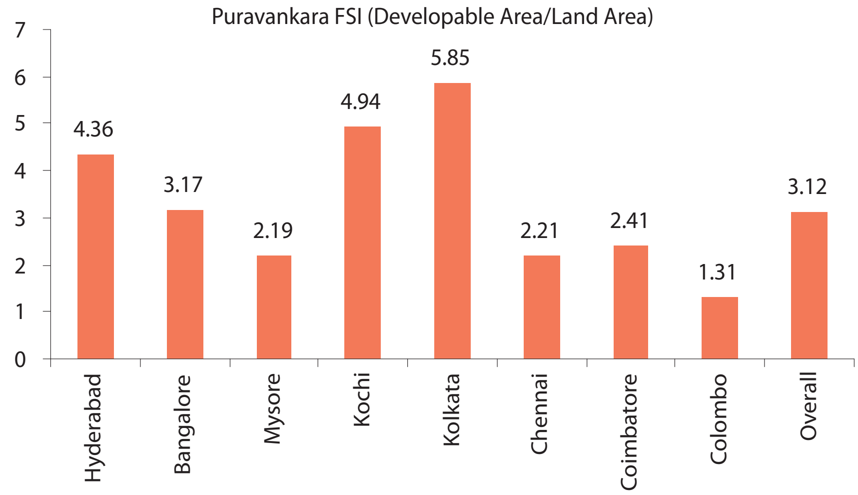
S. No.	Project	Location	Developable Area (Mn Sq Ft)	Total No. of Apartments	Saleable Area (Mn Sq Ft)
Residential:					
1	Fountain Square	Marathahalli, Bangalore	1.74	1,150	1.74
2	Vantage (81%)	HSR Layout, Bangalore	0.13	76	0.10
3	Atria-I (68%)	Sanjay Nagar, Bangalore	0.26	131	0.16
4	Elita Promenade (49%)	JP Nagar, Bangalore	2.55	1,573	1.25
5	Venezia	Yelahanka, Bangalore	2.09	1,332	2.09
6	Highlands	Mallasandra, Bangalore	2.54	1,589	2.54
7	Grand Bay	Marine Drive, Kochi	0.50	265	0.51
8	Eternity	Kakkanad, Kochi	0.96	600	0.96
9	Swan Lake	OMR, Chennai	0.83	522	0.83
10	Jade	Vadapalani, Chennai	0.09	55	0.09
11	Moon Reach	Airport-Seaport Rd, Kochi	0.39	198	0.39
12	Spring Time (72%)	Ring Road, Mysore	0.14	94	0.10
13	Oceana (75%)	Marine Drive, Kochi	0.26	95	0.20
14	Windermere	Palikaranai, Chennai	3.51	1,944	3.51
15	Parkway (55%)	Hall Road, Bangalore	0.03	10	0.02
16	Elita Garden Vista (36%)	Rajarhat, Kolkata	2.28	1,376	0.82
	Total Residential		**18.30**	**11,010**	**15.31**

Note: Figures in brackets indicate Puravankara's stake in the projects; *Source: Company, Centrum Research*

Aggressive FSI representation may not fructify

Puravankara has assumed a high floor space index (FSI, calculated as the developable area divided by the land area) which ranges from 1.31x to 5.85x and gives an average FSI of 3.12x for its entire land bank which the company claims is a result of its land bank being concentrated in Bangalore, Hyderabad and Kochi. FSI calculation used by peers such as Sobha Developers, DLF, Unitech and HDIL states a FSI of 1.0-1.3x (excluding slum rehabilitation projects).

Exhibit 9: Puravankara has a high FSI land bank



Source: Company, Centrum Research

We are of the view that though the company has stated its developable area as per the FSI norms outlined in the Bangalore City Development Plan 2015, the assumed FSI is subject to changes in regulations from government authorities and the company may not obtain the stated FSI. Further, as a developer typically develops the entire land bank over a period of 10-12 years, any changes in the FSI norms may significantly affect the NAV value of the company's projects. In Puravankara's case, only around a sixth of the total land bank of 127mn sq ft, i.e. 20mn sq ft is currently under development which makes it risky to calculate NAV on the stated land bank. Accordingly, we have only considered the NAV of ongoing projects to arrive at our target price and have valued the remaining land at book value.

Visible slowdown in execution; new launches put on hold

In its Q2FY09 concall, the management had highlighted the fact that the current environment for property markets has deteriorated with transaction volumes falling. This in turn has led to lower pre-sales which has hampered new project launches, especially its 30-acre High-Tech City project at Hyderabad. The company's recent foray into commercial properties has been hit the hardest with three of its commercial projects (consisting of 0.9mn sq ft developable area) being out on hold. Also, the company's largest ongoing residential project – Windermere at Palikaranai, Chennai of 3.5mn sq ft saleable area has seen no progress in construction over the last few months.

Exhibit 10: Puravankara's ongoing commercial projects

S.No.	Project	Location	Developable Area (Mn Sq Ft)	Saleable Area (Mn Sq Ft)
1	Moneto	Chennai	0.36	0.36
2	Summit (50%)	Hyderabad	0.54	0.27
3	Primus (60%)	Chennai	0.17	0.10
4	Acts Ministries (70%)	Bangalore	0.36	0.26
5	Joshi Properties	Bangalore	0.35	0.35
	Total Commercial		**1.78**	**1.34**

Source: Company, Centrum Research

Company not reducing prices; high construction costs pose risk

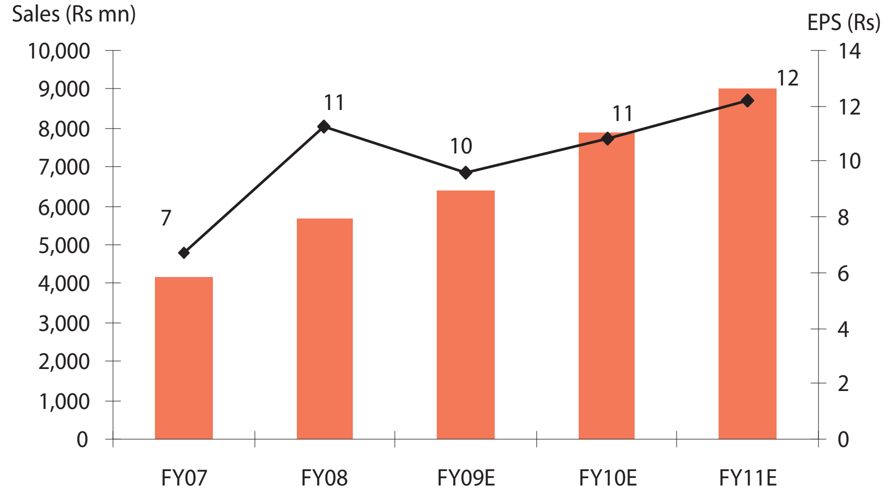
Although Puravankara's pricing of projects is more affordable than that of Sobha Developers as it has a number of properties in Rs4-6mn bracket, the company's reluctance to reduce prices at some of its large projects in Bangalore may hamper the company's prospects. Puravankara's average construction cost of Rs1,700-1,800 per sq ft, although indicative of the company's quality of construction may not be tenable in a scenario where affordability has become the buzzword. The only silver lining in our view is that of the total stock of 11,010 flats under construction, the company has already sold around 60-65% of the apartments. These projects include Purva Fountain Square (Marathahalli, Bangalore), Purva Vantage (HSR Layout, Bangalore), Purva Atria (Sanjay Nagar, Bangalore), Purva Venezia (Yelahanka, Bangalore) and Purva Grand Bay (Marine Drive, Kochi).

Financial Analysis

Expected recovery in FY11E to strengthen revenues

We expect 17% revenue CAGR over FY08-FY11E to Rs9,002mn from Rs5,658mn in FY08. As nearly 60-65% of Puravankara's ongoing residential projects have already been sold, we believe the company will continue to post growth in revenues in FY09 and FY10. Demand across south India should revive in FY11 post the projected 30-40% correction in property prices, wherein we expect the company to sell off its ongoing project portfolio and announce new project launches.

Exhibit 11: Decent sales and EPS growth

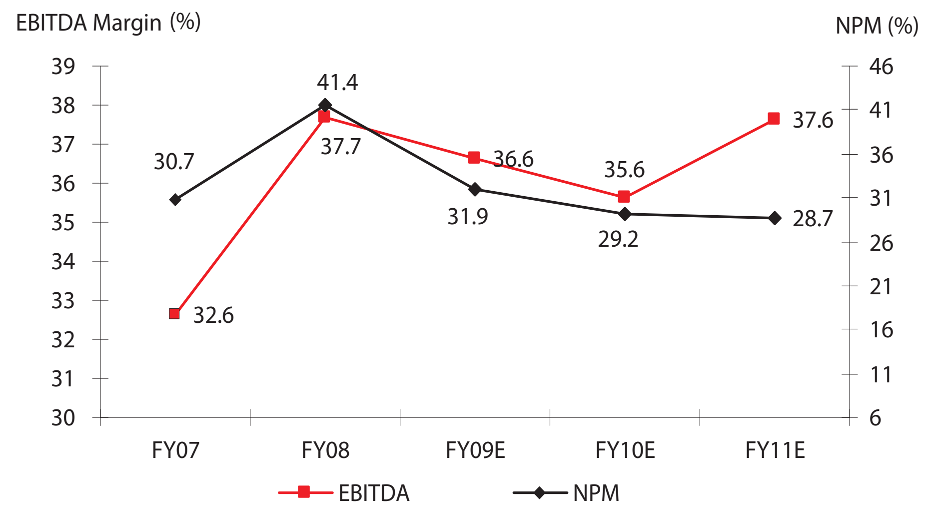


Source: Company, Centrum Research

Net margins to contract over FY08-11E

Puravankara's net margins have increased from 27.3% in FY06 to 41.4% in FY08 on the back of a heavy upswing in residential prices. However, going forward, we expect net margins to stabilize at about 30% over FY09-11E on account of increased construction costs (under percentage completion method), higher interest outgo due to increased funding requirements and a higher tax rate of 18-22%.

Exhibit 12: EBITDA and net profit margins to decline



Source: Company, Centrum Research

Valuation

We have valued Puravankara on SOTP basis using the sum of DCF-based NAV for its ongoing projects and book value of its remaining land bank. In the current environment where developers are delaying project launches and are not able to sell off their existing stock, we believe valuations based on the assumption that the entire land bank will be developed over 10 years does not give a true picture of a company's value. As companies struggle to stay cash positive, they may have to sell off portions of their existing land bank, or possibly default on outstanding land payments.

NAV of Rs58 per share; target price of Rs35 at 40% discount to NAV

We have estimated Puravankara's NAV from its real estate business by considering development of ongoing residential projects. We have not included any fresh launches in FY09-11E. We have valued Puravankara's remaining land bank of 107mn sq ft (including ongoing commercial projects and affordable housing) at a book value of Rs124psf and arrived at a total GAV of Rs23,617mn after adding the GAV from ongoing residential projects. Discounting the cash flows from ongoing projects at 17% and adjusting for net debt and outstanding land payments as of FY10E, we get a discounted NAV of Rs58 per share. We have valued Puravankara at a 40% discount to NAV to reflect execution delays and sector-specific liquidity concerns and arrived at a target price of Rs35 per share. We initiate coverage with a Reduce rating.

Exhibit 13: NAV of Puravankara's ongoing projects

Valuation of Puravankara on estimated NAV basis	**INR Mn**
Post-Tax GAV of Ongoing Projects	10,845
Valuation of Land Bank @ Book Value	12,772
Total Value of Land & Ongoing Projects	23,617
Less : Net debt (as on 31st Mar'10)	11,220
Less : Balance due for purchase of land (as on 30th Sep'08)	50
Estimated NAV	12,347
No. of Shares (mn)	213
NAV/Share	58
Discount to NAV	40%
Target Price	**35**

Source: Centrum Research

Risks

Key upside risks

- A quicker-than-anticipated recovery in the macro-economic environment and reduction in interest rates.
- Revival in the IT/ITES business in India leading to increased demand for residential, commercial and retail properties.

Puravankara's ongoing projects (as on Jan 09)

Purva Eternity	Purva Venezia
	

Purva Moonreach	Purva Highlands
	

Source: Company, Centrum Research

Financials

Profit & Loss Account

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	**4,169**	**5,658**	**6,378**	**7,877**	**9,002**
Growth in revenues (%)	49.0	35.7	12.7	23.5	14.3
Operating exp	2,808	3,525	4,041	5,071	5,615
% of net sales	67.4	62.3	63.4	64.4	62.4
EBITDA	**1,361**	**2,133**	**2,337**	**2,806**	**3,387**
y-o-y growth (%)	52.7	56.8	9.5	20.1	20.7
EBITDA Margin (%)	32.6	37.7	36.6	35.6	37.6
Dep & Amortisation	25	59	77	79	90
Other Income	33	135	45	50	55
EBIT	**1,369**	**2,209**	**2,305**	**2,777**	**3,352**
Interest expenses	(46)	(36)	(125)	(157)	(181)
EBT bef extrao items	**1,323**	**2,173**	**2,180**	**2,620**	**3,170**
Extraord. Income/(Exp)	140	295	150	200	250
EBT	**1,463**	**2,467**	**2,330**	**2,820**	**3,420**
Provision for tax	172	67	280	508	821
Effective tax rate (%)	11.8	2.7	12.0	18.0	24.0
Net Profit bef min interest	**1,291**	**2,400**	**2,051**	**2,313**	**2,599**
Minority interest	0	0	0	0	0
Net Profit after min int	**1,291**	**2,400**	**2,051**	**2,313**	**2,599**
Extra-ordinary inc/ (exp)	0	0	0	0	0
Adjusted Net Profit	**1,291**	**2,400**	**2,051**	**2,313**	**2,599**
y-o-y growth (%)	68.5	85.9	(14.6)	12.8	12.4
Adjusted Net Profit Mrg(%)	30.7	41.4	31.9	29.2	28.7

Source: Company, Centrum Research

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
CF from operating					
Profit before tax	1,463	2,467	2,330	2,820	3,420
Depreciation	25	59	77	79	90
Interest expenses/(income)	391	(98)	80	107	126
Other Non oper. (income)/exp	(141)	(286)	(150)	(200)	(250)
Op profit bef WC change	**1,738**	**2,142**	**2,337**	**2,806**	**3,387**
Working capital adjustment	(2,119)	(3,118)	(2,859)	(3,232)	(3,292)
Gross cash from opera.	**(381)**	**(976)**	**(523)**	**(426)**	**94**
Direct taxes paid	(153)	(215)	(280)	(508)	(821)
Cash from operations	**(534)**	**(1,191)**	**(802)**	**(934)**	**(727)**
Cash flow from invest.					
Capex	(239)	(175)	(383)	(394)	(450)
Investment	0	(221)	0	0	0
Properties held for devvp.	(3,997)	(5,061)	(1,059)	(1,127)	(925)
Interest received	41	134	45	50	55
Other Income	(83)	217	150	200	250
Cash from investment	**(4,277)**	**(5,106)**	**(1,247)**	**(1,271)**	**(1,070)**
Cash flow from financing					
Proceeds from sha cap & prem.	10	8,008	0	0	0
Borrowings/ (Repayments)	5,230	(682)	2,526	2,785	2,250
Interest expenses	(362)	(843)	(125)	(157)	(181)
Dividend paid	(137)	(211)	(240)	(271)	(304)
Cash from financing	**4,741**	**6,273**	**2,161**	**2,358**	**1,764**
Net cash inc/ (decrease)	**(71)**	**(24)**	**112**	**153**	**(32)**
Opening Cash Balance	**444**	**374**	**350**	**462**	**615**
Closing Cash Balance	**374**	**350**	**462**	**615**	**583**

Balance Sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	960	1,067	1,067	1,067	1,067
Reserves	1,258	11,060	12,871	14,913	17,208
Shareholders' fund	2,218	12,127	13,938	15,980	18,275
Minority Interest	0	0	0	0	0
Debt	6,761	6,524	9,050	11,835	14,085
Deferred Tax Liability	11	10	10	10	10
Total Capital Employed	**8,989**	**18,661**	**22,998**	**27,825**	**32,370**
Total Fixed Assets	389	497	803	1,118	1,478
Goodwill	0	0	0	0	0
Investments	371	887	887	887	887
Properties held for dev	7,008	12,920	13,979	15,106	16,030
Inventories	159	171	227	281	321
Debtors	459	824	1,223	1,618	1,973
Cash and bank balances	374	350	462	615	583
Properties under dev	2,471	3,958	5,242	7,553	9,865
Properties held for sale	515	910	1,573	2,158	2,713
Loans and Advances	2,327	2,878	3,669	4,963	5,426
Total current assets	6,305	9,090	12,396	17,188	20,880
Current liabii& prov	5,084	4,732	5,067	6,474	6,905
Net current assets	1,221	4,358	7,329	10,714	13,974
Miscel Expenditure	0	0	0	0	0
Total Assets	**8,989**	**18,661**	**22,998**	**27,825**	**32,370**

Source: Company, Centrum Research

Ratio Analysis

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Margin Ratios (%)					
EBITDA Margin	32.6	37.7	36.6	35.6	37.6
PBIT Margin	32.6	38.1	35.9	35.0	37.0
PBT Margin	34.8	42.6	36.3	35.6	37.8
PAT Margin	30.7	41.4	31.9	29.2	28.7
Growth Ratio (%)					
Revenue	49.0	35.7	12.7	23.5	14.3
EBITDA	52.7	56.8	9.5	20.1	20.7
Net Profit	68.5	85.9	(14.6)	12.8	12.4
Return Ratios (%)					
ROCE	13.3	11.5	8.8	8.2	7.8
ROIC	14.5	12.3	9.4	8.6	8.2
ROE	58.2	19.8	14.7	14.5	14.2
Per share Ratios (Rs)					
Basic EPS	6.7	11.2	9.6	10.8	12.2
Fully diluted EPS	6.7	11.2	9.6	10.8	12.2
Book value	11.5	56.8	65.3	74.9	85.6
Gearing Ratio (x)					
Debt-equity	3.0	0.5	0.6	0.7	0.8
Interest coverage ratio	29.9	60.7	18.5	17.7	18.5
Valuation (x)					
P/E (Fully Diluted)	5.9	3.5	4.1	3.6	3.2
P/BV	3.4	0.7	0.6	0.5	0.5
EV/EBITDA	10.7	6.8	6.2	5.2	4.3
EV/Sales	3.5	2.6	2.3	1.9	1.6
M-cap/Sales	2.0	1.5	1.3	1.1	0.9

Source: Company, Centrum Research

India

Real Estate

Brigade Enterprises

CENTRUM

Initiation

30 January 2009

Buy

Target Price: Rs48

CMP: Rs37*

Upside: 30%

*as on 29 January 2009

Well padded

- **High pre-sales from flagship projects a positive:** Brigade has over Rs3bn of unrealized sales from its two flagship properties in Bangalore – Gateway (90%) and Metropolis (75%), which will cushion it during the current sluggish phase real estate market. We estimate the unbooked GAV from these projects at Rs2.6bn.
- **Low debt-equity ratio provides comfort on liquidity front:** Brigade likely has the lowest debt-equity ratio of 0.3x (Q2FY09) among listed real estate players. Moreover, its relatively smaller land bank with outstanding payments of Rs760mn and a conservative FSI statement policy provide comfort on the liquidity front.
- **Cash flow positive in FY11E:** With its retail and commercial properties at Gateway and Metropolis becoming operational in FY10, the company is expected to turn operating cash flow positive in FY11E.
- **Commercial, retail projects accretive over long-term; offset near-term oversupply concerns:** These projects should see a recovery in FY11E, rendering them accretive over the long-term. We estimate a GAV of Rs1,715mn and Rs3,034 from retail and commercial projects, respectively, using FY18E rentals and 12% cap rate.
- **Land bank concentration in Bangalore a concern:** About 70% of Brigade's land bank is concentrated in Bangalore; its average cost of land bank is Rs250-275 per sq ft, which we believe will impact the stock and cause it to trade at a discount to its NAV over the short-term. A revival is expected post Dec 2009.
- **Attractive valuations; Buy with target price of Rs48:** We initiate coverage with a Buy rating and target price of Rs48, a 50% discount to FY10E NAV, based on SOTP valuation of ongoing projects and existing value of land bank after deducting outstanding land bank payments.

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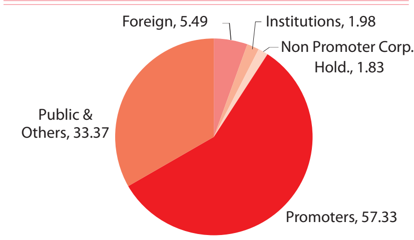
Key Data

Bloomberg Code	BRGD IN
Reuters Code	BRIG.BO
O/S Shares (mn)	112.3
Diluted Shares (mn)	112.3
Market Cap (Rs bn/US$ mn)	4.1/83.5
52 Wk H / L (Rs)	330/32
Daily Vol. (3M NSE Avg.)	66,150
Face Value (Rs)	10
Free Float (%)	33.9
1 US$ = Rs49.0	

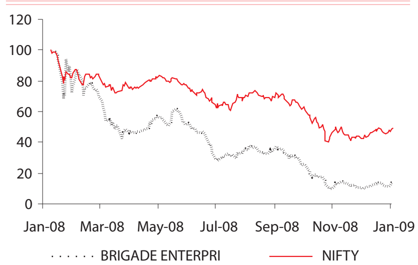
Source: Bloomberg

Shareholding Pattern



As on 31st December 2008

One Year Indexed Stock Performance



Source: Bloomberg, Centrum Research

Price Performance (%)	1M	6 M	1 Yr
Brigde Ent.	(8.8)	(69.2)	(88.8)
Nifty	(2.5)	(32.0)	(46.0)

Source: Bloomberg, Centrum Research

Key Financials (Rsmn)

Y/E Mar	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY %	Fully DEPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY07	3,992	NA	1,049	26.3	733	NA	7.8	50.1	18.9	4.7	6.6
FY08	4,889	22.5	1,391	28.4	1,020	39.1	9.1	11.0	8.6	4.0	4.9
FY09E	4,226	(13.6)	1,169	27.7	1,008	(1.2)	9.0	10.0	6.7	4.1	5.9
FY10E	5,687	34.6	1,804	31.7	1,146	13.7	10.2	10.4	7.7	3.6	3.8
FY11E	7,395	30.0	2,651	35.9	1,654	44.3	14.7	13.3	9.2	2.5	2.6

Source: Centrum Research

Shareholding Pattern (%)

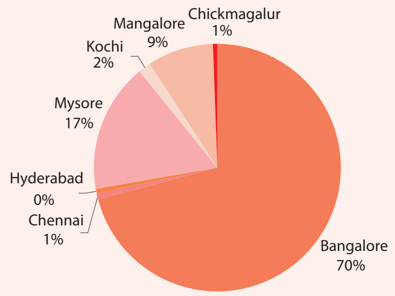
	Q408	Q109	Q209	Q309
Promoter	57.3	57.3	57.3	57.3
Foreign	6.1	6.1	6.0	5.3
Institutions	1.8	1.8	1.9	1.9
Public & others	34.6	34.6	34.6	34.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: BSE

Company Background

Brigade Enterprises is a real estate developer in south India having executed 5.7mn sq ft of real estate projects till date. The company focuses on the development of residential, commercial and hospitality projects. Since inception, its business is concentrated within Bangalore and nearby areas such as Mysore. The Company has an in-house, fully integrated property development team comprising engineers and architects who oversee the development of properties from inception to completion.

Brigade's land bank



Source: Company, Centrum Research

Brigade: Key events/timeline

1994	Completion of first luxury apartments outside Bangalore at Brigade Residency, Mysore
1995	Conversion of Brigade Enterprises, a partnership firm, into Brigade Enterprises Private Ltd
2001	Merger of Brigade Developers Private Ltd and Brigade Investments & Projects Private Ltd into the company
2005	Merger of Brigade Constructions Private Ltd with the Company
2006	Completion of Brigade Millennium, an integrated lifestyle enclave in Bangalore
2007	Listed on BSE & NSE

Source: Company, Centrum Research

Key management personnel

Name	Position	Profile
Mr. M.R. Jaishankar	Chairman & Managing Director	Mr. M.R. Jaishankar has over 20 years of experience in real estate development and is a Board member of the Public Affairs Centre, Bangalore. He is also a Committee Member of CII (Bangalore & BCIC) & former President, KOAPA and Rotary (Bangalore Midtown). He holds a Bachelor of Science degree from University of Agricultural Sciences, Bangalore & a MBA from Manasi Gangotri, Mysore.
Ms. Githa Shankar	Executive Director	Ms. Githa Shankar holds a Bachelor of Arts degree, Bachelors in Library Science and a Masters in Business Administration, all from Mysore University. She has 30 years of experience in the fields of advertising, stock broking, insurance, education and real estate.
Mr. M. R. Gurumurthy	Non-Executive Director	Mr. M. R. Gurumurthy holds a Bachelor of Science degree from Mysore University. He has 40 years of business experience. He manages coffee estates and is the former President of the Rotary Club of Chickmagalur.
Mr. M.R. Shivaram	Non-Executive Director	Mr. M.R. Shivaram holds a Bachelors degree in engineering from Bangalore University and is a Master of Science degree in electronics from New York University. He has 30 years of business experience. He is the Managing Director of Capronics Private Ltd located in Electronic City, Bangalore.

Source: Company

Investment Rationale

- High pre-sales from flagship projects, which are over 50% complete provides cash flow visibility.
- Relatively lower size of land bank and low debt/equity ratio should enable the company to manage asset cycle risk.
- Unrealised value of quality commercial and retail constructions are long-term triggers..

Brigade's funding requirement for FY09-10E

Details	(Rsmn)
Additional funds req. for ongoing projects	3,500
Add: Payables on land bank	760
Add: Payment of debt (Q3FY09-Q4FY10)	1,000
Total funding requirement	**5,260**
Less: Un-booked presales (Q3FY09-Q4FY10)	3,000
Net funding requirement	**2,260**

Source: Centrum Research

Summary Financials

Y/E March (Rsmn)	FY07	FY08	FY09E	FY10E	FY11E
Key Income Statement Data					
Revenue	3,992	4,889	4,226	5,687	7,395
YoY growth (%)	0.0	22.5	(13.6)	34.6	30.0
Operating profit	1,049	1,391	1,169	1,804	2,651
YoY growth (%)	0.0	32.6	(16.0)	54.3	47.0
Operating margin	26.3	28.4	27.7	31.7	35.9
Depreciation	100	101	169	213	277
Interest expenses	17	37	149	205	262
Other non operating income	121	107	243	143	93
PBT	1,052	1,360	1,094	1,528	2,206
Provision for tax	338	344	274	382	551
Minority interest	0	0	0	0	0
PAT (adjusted)	733	1,020	1,008	1,146	1,654
YoY growth (%)	0.0	39.1	(1.2)	13.7	44.3
PAT margin	17.8	20.4	22.5	19.7	22.1
Key Cash Flow Statement Data					
Cash generated from operations	(543)	(1,332)	(2,358)	(426)	277
Cash flow from investing activities	(595)	(5,997)	1,748	(1,060)	(1,316)
Cash flow from financing activities	1,151	7,293	1,174	1,594	1,448
Net cash increase/decrease	13	(36)	564	108	409
Key Balance Sheet Data					
Shareholders' fund	1,463	9,264	10,095	11,040	12,404
Debt	2,402	2,975	4,475	6,475	8,475
Minority Interest	0	0	0	0	0
Total Capital Employed	3,865	12,239	14,570	17,515	20,879
Fixed Assets	3,066	5,322	6,249	7,139	8,221
Investments	11	4,058	1,258	1,258	1,258
Net current assets	788	2,858	7,063	9,118	11,400
Total Assets	3,864	12,239	14,570	17,515	20,879
Key Ratio					
ROCE	18.9	8.6	6.7	7.7	9.2
ROIC	20.1	13.2	7.7	8.8	10.4
ROE	50.1	11.0	10.0	10.4	13.3
Per share Ratios (Rs)					
Fully diluted EPS	7.8	9.1	9.0	10.2	14.7
Book value	15.5	82.5	89.9	98.3	110.5
Solvency Ratio (x)					
Debt-equity	1.6	0.3	0.4	0.6	0.7
Interest coverage ratio	62.6	37.5	8.3	8.4	9.4
Valuation parameters(x)					
P/E (Fully Diluted)	4.7	4.0	4.1	3.6	2.5
P/BV	2.3	0.4	0.4	0.4	0.3
EV/EBITDA	6.6	4.9	5.9	3.8	2.6
EV/Sales	1.7	1.4	1.6	1.2	0.9

Source: Company, Centrum Research

Business to turn operating cash flow positive in FY11E

Low gearing of 0.3x as of Q2FY09 a positive

Investment Argument

High residential pre-sales a positive in the current scenario

We believe the high pre-sales at Brigade's two flagship properties in Bangalore – Gateway (90%) and Metropolis (75%) – are a positive in the current environment marked by a slowdown in transaction volumes and softening in property prices. The company has over Rs3bn of unrealized sales from these projects, which we believe would provide a cushion during the current sluggish phase real estate market. We estimate the unrealized GAV from these projects at Rs2.6bn. As mentioned in our study of the Bangalore market, a marked slowdown in transaction volumes, especially in the premium and super-premium segment coupled with softening prices has led to developers to defer new project launches. Developers are struggling to raise money to complete their ongoing projects. In such a scenario, companies with higher percentage of pre-sales from ongoing projects are better positioned vis-à-vis peers to ride the current slowdown.

Brigade Gateway – Prime location with around 90% apartments pre-sold

Launched in 2006, Brigade's Gateway project is one of the two ongoing lifestyle enclaves the company is developing and is located in the Malleswaram-Rajajinagar area that is close proximity to Bangalore's CBD of MG Road. During the property boom in Bangalore in 2006 and 2007, Brigade was able to sell off a majority of its apartments in the Gateway project with only around 100 apartments (~8%) remaining unsold till date. Brigade has been able to achieve decent realisations from the property with average realisations of Rs3,600/sq ft for 85% of the apartments till FY08. Realisations were higher at Rs4,000/sq ft and Rs5,000/sq ft in Q1FY09 and Q2FY09, respectively.

Exhibit 1: Gateway project details

Property name	Location	Type	Developable Area (mn sq ft)	Saleable Area (mn sq ft)	Estimated Completion Date
Brigade Gateway	Malleswaram, Bangalore	Residential (including car parking)	3.16	3.16	Dec-08
		Commercial (including car parking)*	3.48	3.48	Mar-09
		Hospitality	0.59	0.59	Aug-09
		Total	**7.23**	**7.23**	

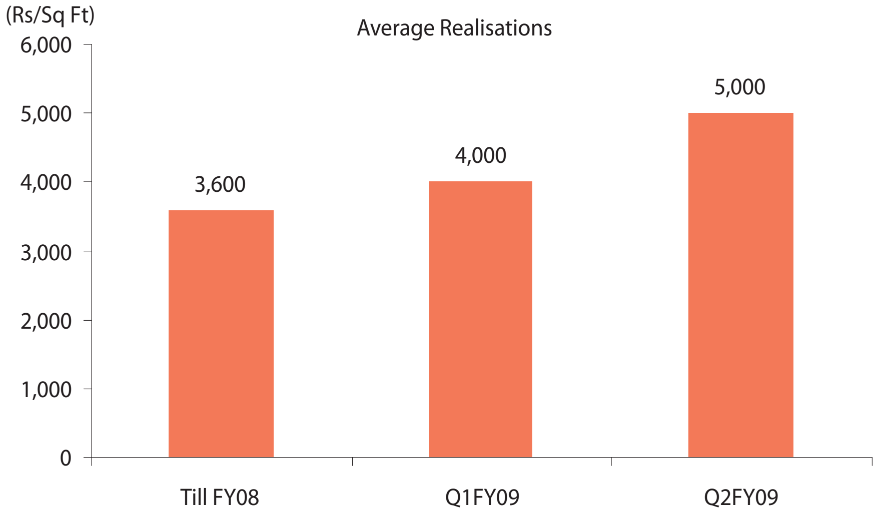
Source: Company, Centrum Research

Exhibit 2: Gateway project highlights

- 40-acre project with 1,222 apartments and artificial lake
- Project includes the 30-storey North Star office tower which would be Bangalore's tallest building
- Orion Mall & Multiplex – 800,000 sq ft mall across 5 levels with 12 screen multiplex (PVR)
- Sheraton Bangalore Hotel – 5 star, 250+ key hotel
- Columbia Asia Hospital – 200 bed, multi-specialty hospital leased to Seattle based Columbia Asia hospitals
- Brigade School & Galaxy Club

Source: Company, Centrum Research

Exhibit 3: Average realisations from Gateway project



Source: Company, Centrum Research

The project is scheduled to be completed by June 2009. Over 60% of the revenues from the project have been recognized till Q2FY09 which leaves Brigade with around Rs2-3bn of unrealized sales (including unsold stock) as of Q2FY09. We have assumed realisations of ~Rs4,000/sq ft for the remaining apartments in our assumptions to arrive at the GAV. As of 30 June 2008, 60% of the construction work on the project was complete.

Brigade Metropolis –75% pre-sales to cushion impact of oversupply

Launched in 2005, the Brigade Metropolis is a lifestyle enclave in the Whitefield area of Bangalore consisting of a residential component, a commercial office and a shopping arcade. Whitefield is currently facing a problem of oversupply but as ~75% of the apartments in the project have been already sold with ~394 units (~25%) of consisting of unsold stock. Brigade has been able to achieve average realisations of Rs2,500/sq ft for FY08 and has been able to achieve realisations of Rs3,000/sq ft and Rs3,300/sq ft in Q1FY09 and Q2FY09, respectively.

Exhibit 4: Metropolis Project Details

Property name	Location	Type	Developable Area (mn sq ft)	Saleable Area (mn sq ft)	Estimated Completion Date
Brigade Metropolis	**Whitefield, Bangalore**	Residential (including car parking)	3.41	2.62	**Dec-08**
		Commercial (including car parking)	1.20	0.93	**Jun-09**
		Hospitality	0.05	0.05	**Aug-09**
		Total	**4.66**	**3.60**	

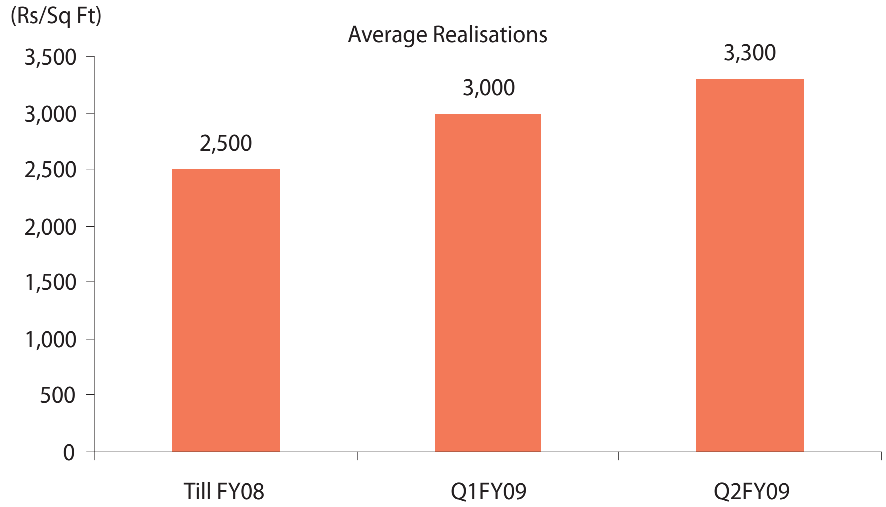
Source: Company, Centrum Research

Exhibit 5: Metropolis project highlights

- 40-acre project with 1,626 apartments
- Project includes Summit I and II software facility, 800,000 sq ft in two blocks with helipad and inter-connected sky bridges
- The Arcade Mall spread over 100,000 sq ft
- Landscaped theme gardens
- Regent Club with sports, recreation and health facilities

Source: Company, Centrum Research

Exhibit 6: Average realisations from Metropolis project



Source: Company, Centrum Research

The project is scheduled to be completed by December 2009 with over 50% of the revenues from the project recognized till Q2FY09, which leaves Brigade with around Rs1.5-2bn of unrealized sales (including unsold stock) as of Q2FY09. We have assumed realisations of around Rs2,800/sq ft for the remaining apartments in our assumptions to arrive at the GAV. As of 30 June 2008, 51% of the construction work on the project is complete.

GAV (after taxes) from the two projects estimated at Rs2.6bn

We have estimated the GAV (after taxes) from the residential component of the Brigade Gateway and Metropolis projects after adjusting for sales already booked till Q2FY09 at a discounting rate of 17% at Rs2.6bn, and an average 25-30% drop in realisations from Q2FY09 to arrive at the GAV.

Exhibit 7: GAV of Gateway and Metropolis projects

Project	GAV (Rsmn)
Brigade Gateway	1,452
Brigade Metropolis	1,158
Total	**2,610**

Source: Company, Centrum Research

Low debt-equity ratio provides comfort on liquidity front

The current slowdown in real estate markets has led to a drop in pre-sales income for real estate developers and financiers have increased their focus on the debt repayment obligations of real estate companies. Brigade, along with DLF and Puravankara Projects, is among the few players to have a debt-equity ratio in the range of 0.5-0.6x, which gives us comfort on the liquidity front. Additionally, the company has yet to book pre-sold income of over Rs3bn over FY09-10E, which further shields it from liquidity risk.

Exhibit 8: Brigade's funding requirement for FY09-10E

Details	(Rsmn)
Additional funds req. for ongoing projects	3,500
Add: Payables on land bank	760
Add: Payment of existing debt (Q3FY09-Q4FY10)	1,000
Total funding requirement	**5,260**
Less: Un-booked pre-sales income (Q3FY09-Q4FY10)	3,000
Net funding requirement	**2,260**

Source: Company, Centrum Research

Our bear case assumption where we have not considered any fresh sales or lease income from the Gateway and Metropolis projects reveal that Brigade would need additional debt of Rs2,260mn over FY09-10E. We believe the company would be able to achieve by virtue of its existing debt-equity ratio of 0.3x (as of Q2FY09) and by discounting its leasing income from the Gateway and Metropolis properties. Additionally, the company management mentions that it has additional a borrowing limit of Rs8bn from various banks and financial institutions.

Low outstanding land bank payments, moderate land bank size limits risk

Unlike most other real estate companies, Brigade has been relatively conservative with its land bank acquisitions and has a relatively higher percentage of ongoing projects of 12.5mn sq ft (~25% of total land bank) and has also paid off ~88% of its land bank obligations as of Q2FY09. Additionally, as the company follows a conservative FSI accounting policy, there is significant increase in the existing land bank becoming 2-3x its existing size.

Exhibit 9: Brigade's land bank payment outstanding as of Sep 2008

Location	Land (acres)	Land Area (mn sq ft)	Amount paid (Rsmn)	Amount payable (Rsmn)
Bangalore	245	11	4,506	571
Mysore	75	3	284	150
Hyderabad	1	0	30	30
Chennai	2	0	43	10
Kochi	23	1	328	0
Mangalore	30	1	54	0
Chikmagalur	49	2	0	0
Total	**426**	**19**	**5,244**	**761**

Source: Company, Centrum Research

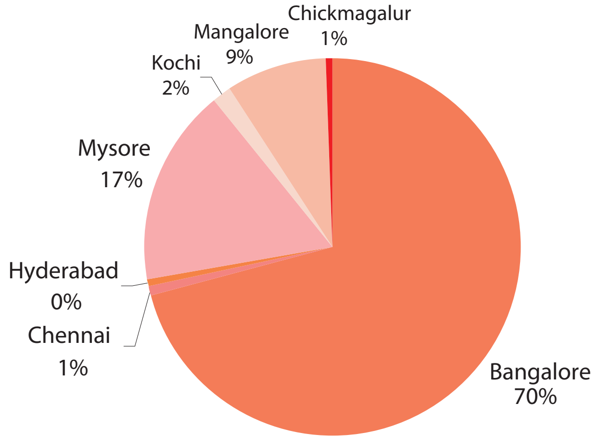
Concentration in Bangalore a near-term concern

About 70% of Brigade's land bank is concentrated in Bangalore where the residential segment is facing an acute problem of oversupply with developers delaying new project launches. Brigade's average cost is Rs250-275 per sq ft, which we believe shall impact the stock and cause it trade at a discount to its NAV over the short-term. We expect this scenario to continue till Dec 2009, after which we expect a revival in the Bangalore market.

Bangalore faces an oversupply situation

The residential segment is facing an acute problem of oversupply with developers delaying new project launches due to ongoing projects not receiving an encouraging response. We expect this scenario to continue till December 2009, after which we expect a revival in the Bangalore market.

Exhibit 10: Brigade's land bank details (excluding ongoing projects)



Source: Company, Centrum Research

Gateway, Metropolis and retail projects – a long term accretive

The office and retail segment in Bangalore is going through a slowdown with lease rentals having already fallen by 15-20% on an average in the city. A major reason for the slowdown is the climb-down in expansion plans of real estate companies. In this context, we have analyzed Brigade's various commercial and retail properties and arrived at our GAV (after taxes).

Orion Mall, Brigade Gateway: The Orion Mall project is part of the Brigade Gateway lifestyle enclave at Malleshwaram and consists of 800,000 sq ft of leasable area spread over 5 levels. Work on the mall is expected to be completed by March 2009 with rentals accruing from April 2009 onwards. Till date, Brigade has leased out 40% of the space at rentals of Rs75-80 per sq ft/month and includes tenants such as Trent and PVR which is setting up a 12-screen multiplex. However, we believe that with the slowdown in demand for commercial as well as retail space in the market, the major issue for companies aside from rentals is the fact that many of them do not wish to expand their operations presently. Accordingly, we have assumed occupancy levels of 40-50% for FY10 and 70-75% for FY11 and a 20% decline in lease rentals from the current level.

North Star, Brigade Gateway: The North Star office building is also part of the Brigade Gateway lifestyle enclave and consists of 1.11mn sq ft of leasable area spread over 30 storeys. Currently, the building has been constructed up to the 25th floor and is expected to be completed by June 2009. Brigade intends to launch the project in Q4FY09 for lease and expects to generate rentals of Rs80-100 per sq ft/month. However, we have factored in lease rentals of Rs50-60 per sq ft/month in our estimates. We have assumed occupancy levels of 40-50% for FY10 and 70-75% for FY11 and a 20% decline in lease rentals from the current level.

Summit I and II, Brigade Metropolis: The Summit I and II office buildings are expected to be operational by Q2FY09 and are part of the Brigade Metropolis lifestyle enclave and consist of 800,000 sq ft of leasable area. No lease agreements have been signed for this property yet which we attribute to the slowdown in the commercial market. Accordingly, we have assumed occupancies of 40-50% in FY10 and 70-75% in FY11 with lease rentals of Rs35-40 per sq ft/month which is a 25% decline from the current level.

Shopping Arcade: The Shopping Arcade is part of Brigade Metropolis and spread over 100,000 sq ft of leasable area. Although the company had originally planned to lease the property, it is now considering an outright sale. However, as we feel that finding buyers may be an issue in the current environment, we have assumed that the property will be leased at rates of Rs40-45 per sq ft/month.

Although we have been conservative in our assumptions for FY10-11E, we feel that the market for commercial and retail properties shall start showing strength towards the latter half of FY11, and have accordingly derived the GAV (post-tax) for the properties using terminal year lease rental (FY18E) at a cap rate of 12% and discount rate of 17%.

Exhibit 11: Brigade's GAV from commercial and retail projects

Project	Location	GAV(Rsmn)	FY18E lease rental (Rs per sq ft/month)
Retail			
Orion Mall	Malleswaram, Bangalore	1,644	90
Shopping Arcade	Whitefield, Bangalore	72	48
Commercial			
North Star	Malleswaram, Bangalore	2,382	103
Summit I & II	Whitefield, Bangalore	652	56

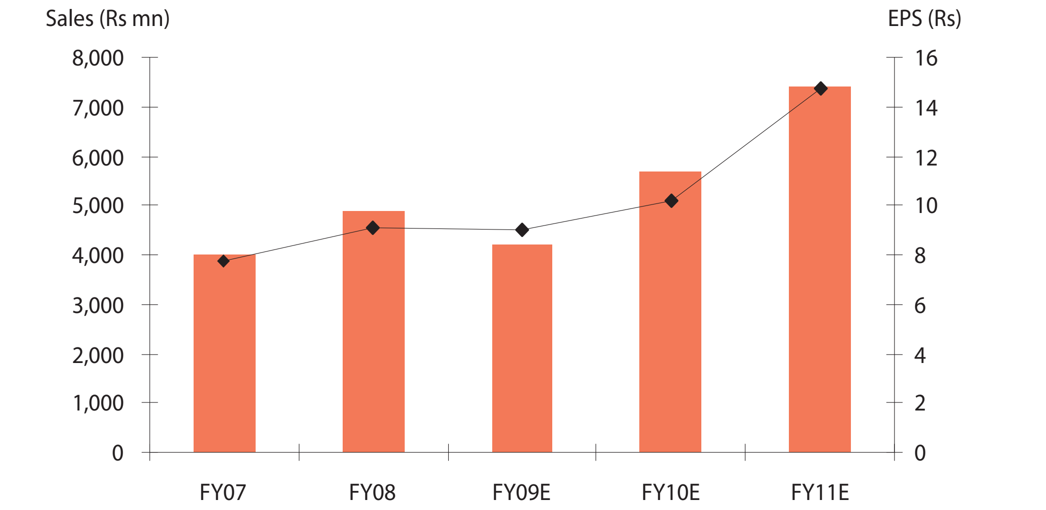
Source: Company, Centrum Research

Financial Analysis

Muted sales growth over FY09-10E, recovery expected in FY11E

We expect 15% revenue CAGR over FY08-11E to Rs7,395mn from Rs4,889mn in FY08. We attribute the degrowth in sales in FY09 to muted transaction volumes and an expected fall of 30% in residential property prices in Bangalore. Although sales are expected to pick up in FY10E owing to rentals accruing from the Gateway and Metropolis projects, low occupancy rates of 40-50% shall limit the revenue growth.

Exhibit 12: Sales and EPS growth to pick up in FY11E



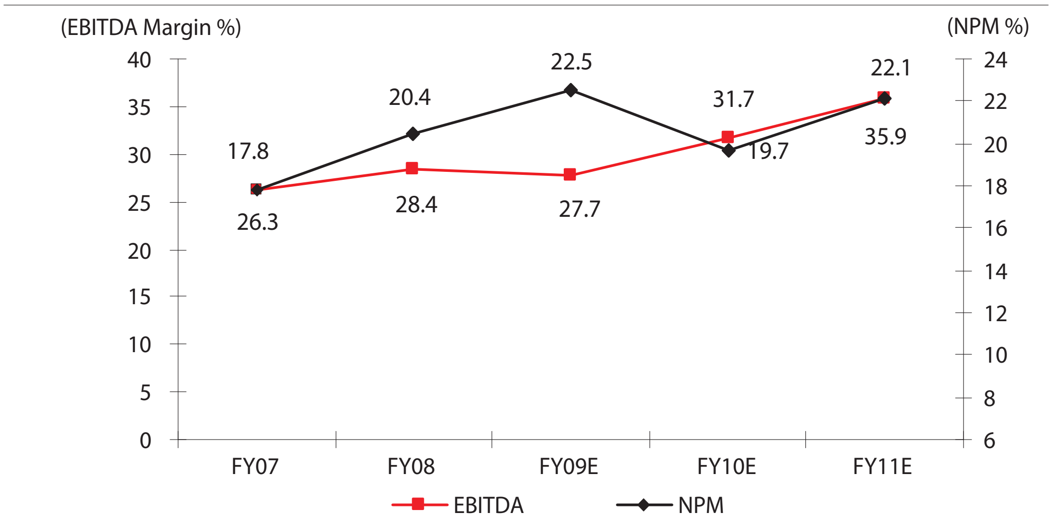
Source: Company, Centrum Research

Margins expected to remain steady in FY10-11E

We expect a recovery in FY11E as a result of an improved macro-economic environment and renewed demand from corporates leading to higher occupancies and rentals in commercial and retail properties.

Although we expect Brigade to sustain its EBITDA margins over FY09-11E due to the anticipated reduction in construction costs as a result of decline in cement and steel prices, we expect a dip in net margins over the same period on account of increase in interest costs due to Brigade's current requirement of Rs3.5bn to complete its ongoing projects. However, net margins are expected to remain steady over FY09-11E and shall improve to 22.1% in FY11E from 20.4% in FY08.

Exhibit 13: EBITDA and net profit margins



Source: Company, Centrum Research

Valuation

We value Brigade at a 50% discount to a DCF-based NAV of its real estate business on account of strong macroeconomic headwinds, weak consumer sentiment, high exposure to real estate in an over-supplied Bangalore market, and execution delays.

GAV of ongoing projects at Rs74 per share

We have estimated Brigade's NAV from its real estate business by considering development of ongoing projects only and have not included any fresh launches in FY09-11E. We have factored in a 30% decline in prices from current levels, cap rate of 12% and assumed occupancies of 40-50% in FY10 and 75% in FY11 to reflect slowdown in Bangalore's commercial and retail markets. Commercial properties account for 37% of GAV (post-tax) while retail properties account for 21% with residential properties accounting for 42% of the GAV. We have been very conservative in our assumptions for rentals in commercial and retail projects and believe that a revival in commercial and retail markets may significantly boost the GAV of these projects.

Exhibit 14: GAV of Brigade's ongoing projects

Asset Class	GAV (Rs. Mn)	Per Share Value
Retail	1715	15
Commercial	3034	27
Residential	3544	32
Total	**8294**	**74**

Source: Centrum Research

NAV at Rs96 per share with target price of Rs48 per share

We have valued the remaining land bank at the existing market rates as we believe that Brigade's average land acquisition cost of Rs250 per sq ft is relatively low cost considering the higher FSI which can be obtained on this land bank. Discounting the cash flows from ongoing projects at 17% and adjusting for net debt and outstanding land payments as of FY10E, we get a discounted NAV of Rs96 per share. We have valued Brigade at a 50% discount to NAV and arrive at a target price of Rs48 per share. We have excluded the value from its Kochi IT SEZ project and hospital business from our valuations. At CMP of Rs37, the stock provides an upside potential of 30%.

Exhibit 15: Brigade's real estate business valuation

Valuation of Brigade on estimated NAV basis	INR Mn
Post-Tax GAV of Ongoing Projects	8,294
Valuation of Land @ Book Value	8,750
Total Value of Land & Ongoing Projects	17,044
Less : Net debt (as on 31st Mar'10)	5,615
Less : Balance due for purchase of land (as on 30th Sep'08)	760
Estimated NAV	10,669
No. of Shares (mn)	111
NAV/Share	96
Discount to NAV	50%
Target Price	**48**

Source: Centrum Research

Risks

Key upside risks

- A quicker-than-anticipated recovery in the macro-economic environment and reduction in interest rates.
- Revival in the IT/ITES business in India leading to increased demand for residential, commercial and retail properties.

Financials

Profit & Loss Account

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Revenues	**3,992**	**4,889**	**4,226**	**5,687**	**7,395**
Growth in revenues (%)		22.5	(13.6)	34.6	30.0
Operating expenses	2,943	3,499	3,057	3,883	4,744
% of net sales	73.7	71.6	72.3	68.3	64.1
EBITDA	**1,049**	**1,391**	**1,169**	**1,804**	**2,651**
y-o-y growth (%)		32.6	(16.0)	54.3	47.0
EBITDA Margin (%)	26.3	28.4	27.7	31.7	35.9
Dep & Amortisation	100	101	169	213	277
Other Income	121	107	243	143	93
EBIT	**1,069**	**1,397**	**1,243**	**1,734**	**2,467**
Interest expenses	17	37	149	205	262
EBT bef extraord. items	**1,052**	**1,360**	**1,094**	**1,528**	**2,206**
Extraordinary Inc/(Exp)	0	0	0	0	0
EBT	**1,052**	**1,360**	**1,094**	**1,528**	**2,206**
Provision for tax	338	344	274	382	551
Effective tax rate (%)	32.2	25.3	25.0	25.0	25.0
Net Profit bef min int.	**714**	**1,016**	**821**	**1,146**	**1,654**
Minority interest	0	0	0	0	0
Net Profit after min int.	**714**	**1,016**	**821**	**1,146**	**1,654**
Extra-ordinary income/ (exp.)	20	4	187	0	0
Adjusted Net Profit	**733**	**1,020**	**1,008**	**1,146**	**1,654**
y-o-y growth (%)		39.1	(1.2)	13.7	44.3
Adjusted Net Profit Mrg (%)	17.8	20.4	22.5	19.7	22.1

Source: Company, Centrum Research

Cash flow statement

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
CF from operating					
Profit before tax	1,052	1,357	1,094	1,528	2,206
Depreciation	100	101	169	213	277
Interest exp.s/(income)	130	23	144	200	257
Other Non op. (income)/exp.	13	(11)	149	(38)	(38)
OP bef WC change	**1,295**	**1,470**	**1,556**	**1,904**	**2,701**
Working capital adj.	(1,643)	(2,206)	(3,641)	(1,948)	(1,873)
Gross CF from operations	**(348)**	**(736)**	**(2,085)**	**(44)**	**829**
Direct taxes paid	(195)	(596)	(274)	(382)	(551)
Others	0	0	0	0	0
Cash from operations	**(543)**	**(1,332)**	**(2,358)**	**(426)**	**277**
CF from investing					
Capex	(608)	(2,048)	(1,095)	(1,103)	(1,359)
Investment	0	(4,037)	2,800	0	0
Other Income	12	87	43	43	43
Cash from investment	**(595)**	**(5,997)**	**1,748**	**(1,060)**	**(1,316)**
Cash flow from financing					
Proceeds from sh. cap. & prem.	0	6,754	0	0	0
Borrowings/ (Repayments)	1,377	573	1,500	2,000	2,000
Interest expenses	(141)	(34)	(149)	(205)	(262)
Dividend paid	(84)	0	(177)	(201)	(290)
Cash from financing	**1,151**	**7,293**	**1,174**	**1,594**	**1,448**
Net cash inc/ (decrease)	**13**	**(36)**	**564**	**108**	**409**
Opening Cash Balance	**212**	**225**	**188**	**753**	**860**
Closing Cash Balance	**225**	**188**	**753**	**860**	**1,270**

Source: Company, Centrum Research

Balance Sheet

Y/E March (Rs mn)	FY07	FY08	FY09E	FY10E	FY11E
Equity Share Capital	269	1,123	1,123	1,123	1,123
Reserves	1,194	8,141	8,972	9,917	11,281
Shareholders' fund	1,463	9,264	10,095	11,040	12,404
Minority Interest	0	0	0	0	0
Debt	2,402	2,975	4,475	6,475	8,475
Deferred Tax Liability	0	0	0	0	0
Total Capital Employed	**3,865**	**12,239**	**14,570**	**17,515**	**20,879**
Total Fixed Assets	3,039	4,988	5,914	6,804	7,886
Goodwill	0	0	0	0	0
Investments	11	4,058	1,258	1,258	1,258
Inventories	2,259	3,023	4,168	5,609	7,091
Debtors	178	29	405	623	1,216
Cash and bank balances	225	188	753	860	1,270
Loans and Advances	1,657	3,679	4,747	6,232	7,699
Total current assets	4,319	6,920	10,073	13,325	17,276
Current liab. & provisions	3,531	4,062	3,010	4,207	5,876
Net current assets	788	2,858	7,063	9,118	11,400
Deferred Tax Asset	17	15	15	15	15
Misc. Expenditure	10	319	320	320	320
Total Assets	**3,864**	**12,239**	**14,570**	**17,515**	**20,879**

Source: Company, Centrum Research

Ratio Analysis

Y/E March	FY07	FY08	FY09E	FY10E	FY11E
Margin Ratios (%)					
EBITDA Margin	26.3	28.4	27.7	31.7	35.9
PBIT Margin	26.0	28.0	27.8	29.7	32.9
PBT Margin	25.6	27.2	24.5	26.2	29.5
PAT Margin	17.8	20.4	22.5	19.7	22.1
Growth Ratio (%)					
Revenue		22.5	(13.6)	34.6	30.0
EBITDA		32.6	(16.0)	54.3	47.0
Net Profit		39.1	(1.2)	13.7	44.3
Return Ratios (%)					
ROCE	18.9	8.6	6.7	7.7	9.2
ROIC	20.1	13.2	7.7	8.8	10.4
ROE	50.1	11.0	10.0	10.4	13.3
Per share Ratios (Rs)					
Basic EPS	7.8	9.1	9.0	10.2	14.7
Fully diluted EPS	7.8	9.1	9.0	10.2	14.7
Book value	15.5	82.5	89.9	98.3	110.5
Gearing Ratio (x)					
Debt-equity	1.6	0.3	0.4	0.6	0.7
Interest coverage ratio	62.6	37.5	8.3	8.4	9.4
Valuation (x)					
P/E (Fully Diluted)	4.7	4.0	4.1	3.6	2.5
P/BV	2.3	0.4	0.4	0.4	0.3
EV/EBITDA	6.6	4.9	5.9	3.8	2.6
EV/Sales	1.7	1.4	1.6	1.2	0.9
M-cap/Sales	1.0	0.8	1.0	0.7	0.6

Source: Company, Centrum Research

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